

COVER SHEET

for

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

S.E.C. Registration Number

0 0 0 0 0 0 2 3 8 7 4

Company Name

T A R L A C
E L E C T R I C I N C .

Principal Office (No./Street/Barangay/City/Town/ Province)

M A B I N I S T . ,
T A R L A C C I T Y ,
T A R L A C

Form Type

Department requiring the report

Secondary License Type, If Applicable

1 7 - Q

S E C

COMPANY INFORMATION

Company's Email Address

corporate@teiph.com

Company's Telephone Number/s

(045) 606 - 1834

Mobile Number

No. of Stockholders

49

Annual Meeting
Month/Day

06/23

Fiscal Year
Month/Day

12 / 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

FLORIZA D. FORLALES

Email Address

fforlales@teiph.com

Telephone Number/s

(045)606-1834

Mobile Number

0920-951-0075

Contact Person's Address

Mabini St., Tarlac City, Tarlac

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **30 September 2023**
2. Commission identification number **23874**.
3. BIR Tax Identification No **004-070-881**
4. Exact name of issuer as specified in its charter **TARLAC ELECTRIC INC.**
5. Province, country or other jurisdiction of incorporation or organization **Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
MABINI ST., TARLAC CITY, TARLAC, PHILIPPINES **2300**
8. Issuer's telephone number, including area code **(045) 606-1834**
9. Former name, former address and former fiscal year, if changed since last report **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class

Number of shares of stock as of 30 September 2023

Common Shares

5,750,000

11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No [☒]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Not Applicable

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [☒] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [☒] No []

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

The Unaudited Interim Condensed Financial Statements of Tarlac Electric Inc. ("TEI" or the "Company") as of and for the period ended September 30, 2023 (with comparative figures as of December 31, 2022 and for the period ended September 30, 2022) and Selected Notes to the Interim Condensed Financial Statements are attached hereto as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by Part III, Paragraph (A)(2)(b) of "Annex C", is attached hereto as **Annex "B" and Annex "D"**

PART II: OTHER INFORMATION

The following other information are attached hereto as **Annex "C"**:

- (a) Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68
- (b) Supplemental Schedule of Financial Soundness Indicators
- (c) Aging of Accounts Receivable

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TARLAC ELECTRIC INC.

Issuer

By:



VITUS M. ROMERO

President and General Manager



MARIA ELISA B. ABAYA

Treasurer and Treasury Head

Date: 11 December 2023

TARLAC ELECTRIC INC.
INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022
(Amounts in Philippine Pesos)
(UNAUDITED)

	Notes	2023	2022
<u>ASSETS</u>			
NON-CURRENT ASSETS			
Property and equipment – net	7	P 2,339,729,438	P 2,087,339,073
Deferred tax assets – net		15,048,707	12,338,418
Retirement benefit fund – net		29,653,736	29,653,736
Other non-current assets – net	8	74,984,737	43,178,842
Total Non-current Assets		2,459,416,618	2,172,510,069
CURRENT ASSETS			
Cash and cash equivalents	9	249,746,528	317,627,656
Trade and other receivables - net	10	519,712,718	717,031,694
Other current assets	11	196,502,563	212,601,759
Total Current Assets		965,961,809	1,247,261,109
TOTAL ASSETS		P 3,425,378,427	P 3,419,771,178
<u>LIABILITIES AND EQUITY</u>			
NON-CURRENT LIABILITIES			
Refundable deposits		P 406,733,585	P 415,910,963
Advances from customers	14	160,676,544	144,892,736
Accrued expenses	16	45,076,151	45,076,151
Provisions	24	46,420,628	-
Lease liabilities-non-current	7	4,008,080	166,309
Total Non-current Liabilities		662,914,988	606,046,159
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	12	1,701,934	203,646,503
Trade payables	15	310,377,258	370,891,849
Accrued expenses and other payables	16	353,713,334	356,769,615
Provisions	24	43,203,148	46,420,628
Lease liabilities	7	2,180,086	1,810,550
Dividends payable	17.4 (a)	75,546,240	-
Income tax payable		24,958,906	33,138,808
Total Current Liabilities		811,680,906	1,012,677,953
Total Liabilities		1,474,595,894	1,618,724,112
EQUITY			
Capital stock	17.2	575,000,000	575,000,000
Stock dividends distributable	17	-	-
Additional paid-in capital		469,660,705	469,660,705
Revaluation reserves	17.3	(2,365,175)	(2,365,175)
Retained earnings		908,487,003	758,751,536
Total Equity		1,950,782,533	1,801,047,066
TOTAL LIABILITIES AND EQUITY		P 3,425,378,427	P 3,419,771,178

See Selected Notes to Interim Condensed Financial Statements.

TARLAC ELECTRIC INC.
INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2023 AND 2022
(Amounts in Philippine Pesos)
(UNAUDITED)

	Notes	Year-to-Date		For the Quarter	
		2023	2022	2023	2022
SALE OF ELECTRICITY	18	P 3,262,637,026	P 3,316,486,171	P 939,881,953	P 1,233,044,324
COST OF ELECTRICITY SOLD	19	2,662,577,124	2,863,741,882	787,125,580	2,084,436,609
GROSS PROFIT		600,059,902	452,744,289	152,756,373	(851,392,285)
OTHER OPERATING EXPENSES					
General and administrative	19	233,747,577	244,566,188	89,557,596	(946,572,486)
Impairment losses		10,937,278	10,484,447	-	-
		244,684,855	255,050,635	-	-
OPERATING PROFIT		355,375,047	197,693,654	63,198,777	95,180,201
OTHER INCOME (CHARGES)					
Provisions		(43,203,148)	13,875,691	65,776,348	(2,155,735)
Finance costs – net		(5,607,779)	(5,964,159)	(744,858)	(2,029,240)
Gain (loss) on disposal of property and equipment		1,029,821	1,369,308	486,071	163,170
		(47,781,106)	9,280,840	(258,787)	(4,021,805)
PROFIT BEFORE TAX		307,593,941	206,974,494	62,939,990	91,158,396
TAX EXPENSE		76,898,474	51,743,623	27,483,015	3,537,941
NET PROFIT		230,695,467	155,230,871	35,456,975	87,620,455
OTHER COMPREHENSIVE INCOME					
Item that will not be reclassified subsequently to profit or loss					
Remeasurements on post-employment defined benefit plan		-	-	-	-
Tax income		-	-	-	-
		-	-	-	-
TOTAL COMPREHENSIVE INCOME		P 230,695,467	P 155,230,871	P 35,456,975	P 87,620,455
EARNINGS PER SHARE					
Basic and Diluted	23	P 40.12	P 27.00	P 6.17	P 15.24

See Selected Notes to Interim Condensed Financial Statements.

TARLAC ELECTRIC, INC.
INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2023 AND 2022
(Amounts in Philippine Pesos)
(UNAUDITED)

	Capital Stock <small>(see Note 17)</small>		Additional Paid-in Capital		Revaluation Reserves <small>(see Notes 17)</small>	Retained Earnings <small>(see Note 17)</small>			Total Equity
						Appropriated	Unappropriated	Total	
Balance at January 1, 2023	P	575,000,000	P	469,660,705	(P 2,365,175)	P 350,000,000	P 408,751,536	P 758,751,536	1,801,047,066
Issuance of shares		-		-					-
Reversal of appropriation		-		-	-	-	-	-	-
Cash dividends declaration							(80,960,000)	(80,960,000)	(80,960,000)
Appropriation for the year						-	-	-	-
Total comprehensive income for period		<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>230,695,467</u>	<u>230,695,467</u>	<u>230,695,467</u>
Balance at September 30, 2023	P	<u>575,000,000</u>	P	<u>469,660,705</u>	(P <u>2,365,175</u>)	<u>P 350,000,000</u>	<u>P 558,487,003</u>	<u>P 908,487,003</u>	<u>P 1,950,782,533</u>
Balance at January 1, 2022	P	575,000,000	P	469,660,705	(P 9,540,442)	P 130,000,000	P 415,143,121	P 545,143,121	P 1,580,263,384
Issuance of shares		-		-					-
Reversal of appropriation		-		-	-	-	-	-	-
Cash dividends declaration							-	-	-
Appropriation for the year						-	-	-	-
Total comprehensive income for the period		<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>155,230,870</u>	<u>155,230,870</u>	<u>155,230,870</u>
Balance at September 30, 2022	P	<u>575,000,000</u>	P	<u>469,660,705</u>	(P <u>9,540,442</u>)	<u>P 130,000,000</u>	<u>P 570,373,991</u>	<u>P 700,373,991</u>	<u>P 1,735,494,254</u>

See Selected Notes to Interim Condensed Financial Statements.

TARLAC ELECTRIC, INC.
INTERIM CONDENSED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED September 30, 2023 AND 2022
(Amounts in Philippine Pesos)
(UNAUDITED)

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 307,593,941	P 206,974,494
Adjustments for:			
Depreciation and amortization	7, 8	74,976,119	76,992,284
Impairment losses on trade receivables	10	10,937,278	10,484,447
Interest expense		7,350,683	7,526,969
Interest income		(264,297)	(252,904)
(Gain) loss on disposal of property and equipment		(1,029,821)	(364,844)
Gain on recovery of previously written-off receivables	10	(1,478,606)	(1,468,372)
Operating profit before working capital changes		398,085,297	299,892,074
Decrease (increase) in trade receivables		187,860,304	(110,329,883)
Decrease (increase) in other current assets		16,099,197	(24,482,640)
Increase in retirement benefit fund		-	-
Increase (decrease) in trade payables		(60,514,591)	124,934,905
Increase (decrease) in accrued expenses and other payables		(3,056,280)	(5,682,013)
Increase (decrease) in provisions		43,203,148	(13,875,691)
Increase in refundable deposits		(10,377,697)	17,937,571
Increase (decrease) in advances from customers		15,783,808	11,349,557
Cash generated from operations		587,083,186	299,743,880
Interest received		264,297	252,904
Cash paid for taxes		(87,788,665)	(39,714,919)
Net Cash From Operating Activities		499,558,818	260,281,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(314,467,687)	(245,244,094)
Repayment of lease liability	7	-	2,095,872
Interest expense on lease	7		158,465
Proceeds from disposal of property and equipment	7	1,029,821	364,844
Additions to computer software	8	(38,456,154)	1,331,155
Net Cash Used in Investing Activities		(351,894,020)	(241,293,758)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of interest-bearing loans and borrowings	12	28,872,800	30,000,000
Dividends paid	17	(5,413,760)	(54,000,000)
Repayments of interest-bearing loans and borrowings	12	(230,817,369)	(41,297,779)
Interest paid		(6,021,148)	(7,526,970)
Repayment of lease liability	7	(2,166,449)	-
Proceeds from public offer		-	-
Net Cash From (Used in) Financing Activities		(215,545,926)	(72,824,749)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(67,881,128)	(53,836,642)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD		317,627,656	399,021,693
CASH AND CASH EQUIVALENTS AT END OF PERIOD		P 249,746,528	P 345,185,051

See Selected Notes to Interim Condensed Financial Statements.

TARLAC ELECTRIC INC.
SELECTED NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022 AND DECEMBER 31, 2022
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Tarlac Electric Inc. (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 8, 1963. The Company has renewed its legislative franchise to install, operate and maintain an electric light, heat and power system, and to produce, buy and sell electricity in Tarlac City, Tarlac for a period of 25 years, by virtue of Republic Act (R.A.) No. 10795, which was signed into law on May 10, 2016 and took effect on October 18, 2016, i.e., 15 days after its publication on October 3, 2016.

As a power distribution utility firm, the Company is subject to the rules and regulations promulgated by the Energy Regulatory Commission (ERC). The ERC principally establishes and enforces a methodology for setting distribution wheeling rates and retail rates for the captive market of distribution utilities (see Note 22.1).

The registered office of the Company, which is also its principal place of business, is located at Mabini Street, Tarlac City, Tarlac.

1.2 Continuing Impact of COVID-19 Pandemic on the Company's Business

The COVID-19 pandemic began to spread in the Philippines in early March 2020, and its impact has continued until the date of the approval of these financial statements. In 2022, the country's economic condition improved because of resumption of local and international travels as well as the easing of health restrictions brought about by the pandemic. Demand and supply have gradually returned to pre-pandemic levels. As a result, the impact of the COVID-19 pandemic to the Company has been lessened, and the Company's operations are already nearing the pre-pandemic levels.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management expects that the Company will continue to report positive results of operations and will remain liquid to meet current obligations as they near maturity. Moreover, management is taking an optimistic stance in the Company's ability to sustain its growth momentum even amid concerns on the effects of the pandemic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements have been prepared in accordance with the accounting policies adopted by the Company in its recent annual financial statements for the year ended December 31, 2022.

The policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of Preparation of Interim Condensed Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The interim condensed financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The interim condensed financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Interim Condensed Financial Statements

The interim condensed financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expense and other comprehensive income or loss in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These interim condensed financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the interim condensed financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's interim condensed financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim condensed financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the judgments in the succeeding pages, apart from those involving estimation, which have the

most significant effect on the amounts recognized in the interim condensed financial statements.

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of payment centers, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. In assessing the enforceability of the option, an entity should consider whether the lessor can refuse to agree to a request from the lessee to extend the lease. Accordingly, if the lessee has the right to extend or terminate the lease, there are enforceable rights and obligations beyond the initial non-cancellable period and thus, the parties to the lease would be required to consider those optional periods in their assessment of the lease term.

(b) Determination of Timing of Satisfaction of Performance Obligations

The Company determines that its revenues from sale and distribution of electricity are recognized over time. The Company applies the practical expedient to recognize revenue at the amount to which it has a right to invoice, which corresponds directly to the value of services rendered to date to the customers i.e., generally when the customers have acknowledged the Company's right to invoice.

(c) Determination of Expected Credit Loss (ECL) on Trade Receivables

The Company uses a provision matrix to calculate ECL for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 24.

3.2 Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are presented below and in the succeeding pages.

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset, and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2(b).

(c) Estimation of Useful Lives of Property and Equipment and Computer Software

The Company estimates the useful lives of property and equipment and computer software based on the prescribed periods by the ERC and based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets.

Management assessed that as of September 30, 2023 and December 31, 2022, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of property and equipment and computer software are analyzed in Notes 7 and 8, respectively.

(d) Determination of Net Realizable Value of Supplies Inventories

In determining the net realizable value of supplies inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The Company's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 11 is affected by price changes in different market segments of various spare parts and maintenance inventories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial reporting period.

Based on management's assessment as of September 30, 2023 and December 31, 2022, the net realizable value of the supplies inventories is higher than its cost.

(e) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of September 30, 2023 and December 31, 2022 will be fully utilized in the coming years.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on the Company's non-financial assets for the periods ended September 30, 2023 and December 31, 2022.

(g) *Valuation of Retirement Benefit Fund*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary rate increase.

A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit fund in the next reporting period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and financing activities. The Company's risk management is coordinated with its BOD and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are in the succeeding pages.

4.1 Market Risk

(a) Foreign Currency Risk

The Company has no significant exposure to foreign currency risk as most transactions are denominated in Philippine pesos, its functional currency.

(b) Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Company has no significant exposure to interest rate risk since most of its interest-bearing financial assets and financial liabilities are at fixed rates or are noninterest-bearing.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from selling services to customers and placing deposits with banks.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. In addition, for a significant proportion of sales, bill deposits are received to mitigate credit risk.

The maximum credit risk exposure of financial assets and contract assets is the carrying amount of the financial assets as shown in the interim condensed statements of financial position as summarized in the succeeding page.

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Cash and cash equivalents	9	P 249,746,528	P 317,627,656
Trade receivables – net	10	519,712,718	717,031,694
Refundable deposits	11	3,536,654	3,261,048
Others	11	2,048,706	3,799,771
		P 775,044,606	P1,041,720,169

The Company's management considers that all the above financial assets that are not impaired for each of the reporting dates are of good credit quality.

The Company's credit risks are mitigated by securing refundable deposits or other credit enhancements as described below.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(b) *Trade Receivables*

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The expected loss rates are based on the payment profiles of sales over a period of 36 months before September 30, 2023 and December 31, 2022, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Due to the effects brought by the novel strain of coronavirus (COVID-19), the Philippine government implemented certain measures to protect the health and welfare of the Philippine community. Included in these measures the enactment of R.A. No. 11469 and the subsequent R.A. No. 11494 (see Note 1.2). Incorporated in the provisions of these acts is the deferment of the payment of electric bills for thirty days and allowing such bills to be paid on a three-month, staggered basis. The Company also implemented schemes to ease the impact of Wholesale Electricity Spot Market (WESM) and coal and fuel spike price to its customers by deferring portion of its generation cost. These factors generally increase the collection period of the Company, however, there is no significant change in credit risk for trade receivables as these amounts are largely covered by refundable deposits in the event of non-payment.

The Company has P38.8 million and P27.9 million allowance for impairment as at September 30, 2023 and December 31, 2022, respectively (see Note 10). The Company recognized ECL only on receivables over one year or more beyond the due date as receivables before these periods are historically collectible. The Company also considered other credit enhancements (i.e., refundable deposits) in assessing the ECL to be recognized. On that basis, the loss allowance as at September 30, 2023 and December 31, 2022 was determined based on months past due, as follows:

	0 - 90 Days	91 - 180 Days	181 - 360 Days	Over 360 days	TOTAL
September 30, 2023					
<i>Expected credit loss rate</i>	0%	0%	0%	58.61%	
Trade Receivables	461,156,319	16,154,031	15,839,515	66,286,815	559,436,680
Loss on allowance	-	-	-	38,848,053	38,848,053
December 31, 2022					
<i>Expected credit loss rate</i>	1.00%	25.00%	25.00%	100.00%	
Trade Receivables	320,214,936	24,023,266	42,380,099	9,234,330	744,942,469
Loss on allowance	1,849,679	6,087,551	10,739,215	9,234,330	27,910,775

A reconciliation of the allowance for impairment of at the beginning and end of reporting periods is shown below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period	27,910,775	26,198,834
Additional ECL	10,937,278	1,711,941
Reversal of ECL	-	-
Balance at end of period	38,848,053	27,910,775

Trade receivables are usually due within 30 days and bear 2% surcharge per month for unpaid bills after due date. All trade receivables are subject to credit risk exposure. The Company's credit exposure is mitigated by securing bill deposits from customers which are deducted from the unpaid bills before any impairment losses are recognized.

4.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 90-day periods.

As of September 30, 2023, the Company's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within 6 Months	6-12 Months	1 to 5 years	Later than 5 years
Trade Payables	P 310,377,258.00	-	-	-
Accrued Expenses and other Payables	269,982,197.00	-	45,076,151.00	
Interest-bearing loans and borrowings	1,505,335.00	196,599.00	-	
Advances from Customers	83,731,137.00		160,676,544.00	
Dividends Payable	75,546,240.00			
Refundable Deposits				406,733,585.00
	P 741,142,167.00	196,599.00	205,752,695.00	406,733,585.00

This compares to the maturity of the Company's financial liabilities as of December 31, 2022 as presented below.

	Current		Non-current	
	Within 6 Months	6-12 Months	1 to 5 years	Later than 5 years
Trade Payables	P 370,891,849.00	-	-	-
Accrued Expenses and other Payables	307,689,968.00	-	45,076,151.00	
Interest-bearing loans and borrowings	205,545,539.00	902,523.00	-	
Advances from Customers	84,391,872.00		144,892,736.00	
Dividends Payable	-			
Refundable Deposits				415,910,963.00
	P 968,519,228.00	902,523.00	189,968,887.00	415,910,963.00

The contractual maturities above reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 *Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities*

For the Company's financial assets and financial liabilities as of September 30, 2023 and December 31, 2022, management determined that the carrying amounts of these financial instruments are equal to or approximate their fair values (i.e., financial assets or liabilities are interest-bearing or effect of discounting is immaterial); hence, no further comparison between the carrying amounts and fair values is presented.

A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 *Offsetting of Financial Assets and Financial Liabilities*

The interest-bearing loans and borrowings with net amounts presented in the interim condensed statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements as presented in the succeeding page:

	Gross Amounts recognized in the statement of financial position	Related amounts not set-off in the statement of financial position	Net amount
September 30, 2023			
Interest-bearing loans and borrowings	<u>P 1,701,934</u>	<u>-</u>	<u>P 1,701,934</u>
December 31, 2022			
Interest-bearing loans and borrowings	<u>P 203,646,503</u>	<u>(P 82,279,749)</u>	<u>P 121,366,754</u>

For financial liabilities (i.e., interest-bearing loans and borrowings and their corresponding deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement (i.e., interest-bearing loans and borrowings which can be offset against any cash in banks maintained with the lender bank) will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The levels within the fair value hierarchy are presented below.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

6.2 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

Management considers that the hierarchy of fair values of financial assets and financial liabilities measured at amortized cost, as disclosed in Note 6.1, at Level 3 (except for cash and cash equivalents which is at Level 1).

The Company has no financial assets and financial liabilities measured at fair value as of September 30, 2023 and December 31, 2022. There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments during these periods.

7. PROPERTY AND EQUIPMENT

The carrying amount of this account is composed of the following:

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Property and equipment	7.1	P 2,333,615,628	P 2,085,532,699
Right -of-use assets	7.2	6,113,810	1,806,374
		P 2,339,729,438	P 2,087,339,073

As of September 30, 2023 and December 31, 2022, no impairment losses were recognized in for the Company's property and equipment and right-of-use assets.

7.1 *Carrying Values of Property and Equipment*

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of the reporting periods are shown below.

	Sub- Transmission and Distribution Equipment	Other Machineries and Equipment	Buildings, Fixtures and Improvements	Land	Substation Equipment	Construction in Progress	Total
September 30, 2023							
Cost or Valuation	2,102,821,576	394,021,190	381,764,154	180,035,643	326,132,384	412,980,000	3,797,754,946
Accumulated Depreciation and amortization	(1,039,868,946)	(206,906,318)	(42,351,954)	-	(175,012,101)	-	(1,464,139,318)
Net carrying amount	1,062,952,630	187,114,872	339,412,200	180,035,643	151,120,283	412,980,000	2,333,615,628
December 31, 2022							
Cost or Valuation	2,011,625,376	244,212,237	110,883,359	180,035,643	324,935,064	616,557,850	3,488,249,529
Accumulated Depreciation and amortization	(997,905,961)	(192,191,482)	(43,374,410)	-	(169,244,977)	-	(1,402,716,830)
Net carrying amount	1,013,719,415	52,020,755	67,508,949	180,035,643	155,690,087	616,557,850	2,085,532,699

A reconciliation of the carrying amounts of property and equipment at the beginning and end of the reporting periods is shown below.

	<i>Sub- Transmission and Distribution Equipment</i>	<i>Other Machineries and Equipment</i>	<i>Buildings, Fixtures and Improvements</i>	<i>Land</i>	<i>Substation Equipment</i>	<i>Construction in Progress</i>	<i>Total</i>
Balance at January 1, 2023 net of accumulated depreciation and amortization	1,013,719,415	52,020,755	67,508,949	180,035,643	155,690,087	616,557,850	2,085,532,699
Additions	92,734,592	149,808,952	274,304,671	-	1,197,321	(203,577,849)	314,467,687
Reclassifications	-	-	(159,551)	-	-	-	(159,551)
Depreciation and amortization charges for the year	(43,501,377)	(14,714,835)	(2,241,869)	-	(5,767,126)	-	(66,225,208)
Balance at September 30, 2023 net of accumulated depreciation and amortization	1,062,952,630	187,114,872	339,412,200	180,035,643	151,120,282	412,980,000	2,333,615,628

	<i>Sub- transmission and Distribution Equipment</i>	<i>Other Machineries and Equipment</i>	<i>Buildings, Fixtures and Improvements</i>	<i>Land</i>	<i>Substation Equipment</i>	<i>Construction in Progress</i>	<i>Total</i>
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 953,059,175	P 67,761,185	P 70,319,145	P 74,072,127	P 160,396,252	P 388,835,676	P 1,714,443,560
Additions	124,135,344	15,539,984	626,205	105,963,516	2,961,429	235,096,942	484,323,420
Reclassifications	(8,641,928)	488,963	(488,964)	-	696,429	(7,374,768)	(15,320,268)
Depreciation and amortization charges for the year	(54,833,176)	(31,769,377)	(2,947,437)	-	(8,364,023)	-	(97,914,013)
Balance at December 31, 2022, net of accumulated depreciation and amortization	<u>P 1,013,719,415</u>	<u>P 52,020,755</u>	<u>P 67,508,949</u>	<u>P 180,035,643</u>	<u>P 155,690,087</u>	<u>P 616,557,850</u>	<u>P 2,085,532,699</u>

The amount of depreciation and amortization for the nine months ended September 30 is allocated and presented in the interim condensed statements of comprehensive income under the following accounts (see Note 19).

	2023 (Unaudited)	2022 (Unaudited)
Cost of electricity sold	P 44,443,539	P 41,120,756
General and administrative expenses	30,532,580	36,950,178
	<u>P 74,976,119</u>	<u>P 78,070,934</u>

The Company's land is carried at its deemed cost upon the Company's transition to PFRS (see Note 17.3).

Certain property and equipment with total carrying values of P27,575,055 and P1,058,291,290 as of September 30, 2023 and December 31, 2022, respectively, are used as

collaterals for certain interest-bearing loans and borrowings (see Note 12). There are no other restrictions on the Company's property and equipment.

As of September 30, 2023 and December 31, 2022, fully depreciated and amortized assets amounting to P609,352,791 and P545,963,366, respectively, are still being used in operations.

7.2 *Right-of-use Assets and Lease Liabilities*

The Company has leases for certain payment centers that has a remaining lease terms of one to five years. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the interim condensed statements of financial position as part of Property and Equipment account (for the right-of-use asset) and Lease liabilities account.

The carrying amount of the Company's right-of-use assets as of September 30, 2023 and December 31, 2022 and the movement during the period is shown below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of the period	P 1,806,374	P 1,711,151
Additions	6,248,540	2,639,371
Amortization expense (see Note 19)	(1,941,104)	(2,544,149)
Balance at end of period	<u>P (6,113,810)</u>	<u>P 1,806,374</u>

The movements in the lease liabilities recognized in the interim condensed statements of financial position are as follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of the period	P 1,976,859	P 1,952,507
Additions	6,248,540	2,639,371
Interest expense	129,215	203,039
Repayment of lease liabilities	(2,166,449)	(2,818,058)
Balance at end of period	<u>P 6,188,165</u>	<u>P 1,976,859</u>

Lease liabilities are presented in the interim condensed statements of financial position as follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Current	P 2,180,086	P 1,810,550
Non-current	4,008,079	166,309
	<u>P 6,188,165</u>	<u>P 1,976,859</u>

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at September 30, 2023 is as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>Total</u>
Lease payments	2,429,331	P4,642,955	P -	P -	P 7,072,286
Interest Expense	<u>(249,245)</u>	<u>(634,876)</u>	<u>-</u>	<u>-</u>	<u>(884,121)</u>
	<u>P2,180,086</u>	<u>4,008,079</u>	<u>P -</u>	<u>P -</u>	<u>P 6,188,165</u>

This compares to the undiscounted maturity analysis of lease liabilities as at December 31, 2022 as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>Total</u>
Lease payments	P 1,875,626	P 171,558	P -	P -	P 2,047,184
Interest Expense	<u>(65,076)</u>	<u>(5,249)</u>	<u>-</u>	<u>-</u>	<u>(70,325)</u>
	<u>P 1,810,550</u>	<u>P 166,309</u>	<u>P -</u>	<u>P -</u>	<u>P 1,976,859</u>

The total cash outflow in respect of leases amounted to P2.1 million and P2.8 million in 2023 and 2022, respectively. The Company has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases and low-value assets for the periods ended September 30 are presented as Rent and are allocated on the following accounts (see Note 19).

	2023 (Unaudited)	2022 (Unaudited)
Cost of electricity sold	P 23,018,472	P 24,467,004
General and administrative expenses	<u>2,942,369</u>	<u>2,273,609</u>
	<u>P 25,960,841</u>	<u>P 26,740,613</u>

8. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Deferred input VAT – net	P 21,487,179	P 21,487,179
Computer software – net	53,472,158	21,666,263
Others	25,400	25,400
Balance at end of period	<u>P 74,984,737</u>	<u>P 43,178,842</u>

A reconciliation of the carrying amount of computer software at the beginning and end of 2023 and 2022 is shown below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of the period, net of accumulated amortization	P 21,666,263	P 6,277,352
Additions	38,456,154	21,178,859
Amortization charges for the period	<u>(6,650,259)</u>	<u>(5,789,948)</u>
Balance at end of period net of accumulated amortization	<u>P 53,472,158</u>	<u>P 21,666,263</u>

Amortization of the computer software is included as part of Depreciation and amortization under General and Administrative Expenses account in the interim condensed statements of comprehensive income (see Note 19).

9. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Cash on hand	P 26,194,150	P 37,306,154
Cash in banks	211,764,537	268,551,175
Short-term placements	11,787,841	11,770,327
	<u>P 249,746,528</u>	<u>P 317,627,656</u>

Cash on hand consists of undeposited collections, petty cash and emergency funds as of September 30, 2023 and December 31, 2022.

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for a period ranging from 30 to 34 days and earn annual effective interests of 0.25% in 2023 and 2022.

10. TRADE RECEIVABLES

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Current:		
Trade receivables	P 559,441,235	P 736,810,688
Allowance for impairment	(38,848,053)	(27,910,775)
	520,593,182	708,899,913
Accrued receivables	(880,464)	8,131,781
	P 519,712,718	P 717,031,694

All of the Company's trade receivables have been reviewed for indications of impairment. Certain trade receivables, which are mostly due from residential and small commercial customers, were found to be impaired. Moreso, based on the management's assessment, as the result of the calculated ECL, the allowance for impairment of receivables recognized as of September 30, 2023 and December 31, 2022 was deemed adequate [see Note 4.2(b)].

As of September 30, 2023 and December 31, 2022, trade receivables also include pass-through receivables related to output VAT, universal charges, feed-in-tariff allowance () and other receivables from customers, which are to be subsequently remitted to the Company's suppliers (see Note 16). Pass-through charges pertaining to generation and transmission charges are billed to customers covering the estimated cost of the purchased power.

Accrued receivables pertain to amounts to be collected from customers pertaining to the Deferred Accounting Adjustment related to GRAM and ICERA [see Note 24.2(i)]. The outstanding balance arising from this transaction represents the present value of the future collections from customers.

11. OTHER CURRENT ASSETS

This account is composed of the following:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Supplies inventories	P 143,138,609	P 141,452,541
Deferred input VAT	8,938,651	24,267,626
Refundable deposits	3,536,654	3,261,048
Receivable from retirement fund	2,048,706	3,799,771
Creditable Withholding Tax	9,553	
Other prepayments and assets	38,830,390	39,820,773
	P 196,502,563	P 212,601,759

Receivable from retirement fund pertains to reimbursable disbursements made by the Company for the retirement benefits of its retiring employees.

Other prepayments include receivables from employees and deposits on various suppliers.

12. INTEREST-BEARING LOANS AND BORROWINGS

The movements in interest-bearing loans and borrowings are shown below.

	September, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period	P 203,646,503	P 173,503,949
Additions	28,872,800	30,000,000
Repayments	(230,817,369)	(2,857,446)
Balance at the end of period	P 1,701,934	P 203,646,503
Current	1,701,934	203,646,503
Non-current	-	-
	1,701,934	203,646,503

Bank loans represent secured and unsecured loans and mortgage payable from local commercial banks.

The important features and details of the loans are as follow:

- The Company's Omnibus Line Agreement and Continuing Suretyship Agreement with the Development Bank of the Philippines (DBP) expired in October 31, 2022 and was not renewed. Mortgaged properties were released in January 2023.
- The Company had secured (through collateral and suretyship) and unsecured short-term loans from local banks amounting to 1,701,934 and P203,646,503 as of September

30, 2023 and December 31, 2022. These are payable within three to six months. These loans bear annual interest rates ranging from 4.75% to 6.25%.

- These loans are secured by certain property and equipment (see Note 7).

Total interest expense on interest-bearing loans and borrowings amounted to P6,021,149 and P6,132,901 in September 30, 2023 and 2022 and these are shown as part of Finance costs account under Other Charges section of the interim condensed statements of comprehensive income.

13. REFUNDABLE DEPOSITS

Refundable deposits are obtained at the inception of service contract based on the estimated electricity for one month consumption of the customer. Refundable deposits can either be refunded at the end of the service contract of the customer or applied to unpaid electric bills. These refundable deposits are interest-bearing and earns interest rates based on the rates mandated by the ERC.

Refundable deposits, inclusive of accrued interest, amounted to P406,733,585 and P415,910,963 as of September 30, 2023 and December 31, 2022, respectively.

14. ADVANCES FROM CUSTOMERS

Advances from customers represent the amount of advances from customers to cover the necessary expenditures relative to its connection. The said advances are refundable in accordance with the provision of the Distribution Services and Open Access Rules (DSOAR) as promulgated by the ERC. Advances from customers totaling P160,676,544 as of September 30, 2023 and P144,892,736 as of December 31, 2022, represent the amount estimated by management that will be refunded to customers in more than one year based on the expected achievement of the required distribution revenue per location. Advances from customers that are expected to be refunded within one year are included as part of Accrued Expenses and Other Payables in the interim condensed statements of financial position (see Note 16).

15. TRADE PAYABLES

Trade payables are usually due within 15 to 60 days and do not bear any interest.

Trade payables include outstanding liabilities for the purchase of electricity from GNPowder Mariveles Energy Center Ltd. Co. (GMEC) and National Grid Corporation of the Philippines (NGCP) as of September 30, 2023 and December 31, 2022. A prompt payment discount of 3% on capacity fee is given if the power bill is paid 10 days upon receipt of the power bill of GMEC. The said discount is credited on the subsequent bill (see Note 19).

Trade payables also include outstanding liabilities of P14,922,298 and P18,406,708 as of September 30, 2023 and December 31, 2022, respectively, to Tarlac Power Corporation (TPC) for the purchase of electricity (see Notes 19 and 21.1).

16. ACCRUED EXPENSES AND OTHER PAYABLES

This account consists of:

	Notes	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Current:			
Accrued power bill		P 50,324,928	P 56,656,067
DAA Payable		(1,908)	6,242,261
Advance from customers	14	83,731,137	84,391,872
Non-trade accounts payable		130,335,440	126,028,952
Pass-on VAT Payable	10	21,469,835	19,194,427
Accrued expenses		40,783,918	25,795,362
Franchise tax payable		27,069,984	38,460,674
		<u>353,713,334</u>	<u>356,769,615</u>
Non-current:			
Accrued expenses		45,076,151	45,076,151
DAA Payable		-	-
		<u>45,076,151</u>	<u>45,076,151</u>
		<u><u>398,789,485</u></u>	<u><u>P 401,845,766</u></u>

Accrued expenses include payables related to billing adjustments on purchased electricity, withholding tax, expanded withholding tax, final tax, fringe payable, and payable to SSS and Home Development Mutual Fund.

Non-trade accounts payables of the Company pertain to payables to Power Sector Assets and Liabilities Management (PSALM) Corporation and to National Transmission Corporation (NTC). Those pertaining to PSALM are the Universal Charges composed of missionary electrification charges and stranded contract costs of distribution utilities. The payable to NTC refers to FIT-ALL charges.

DAA payable pertains to the amounts to be remitted to PSALM pertaining to the Deferred Accounting Adjustment related to GRAM and ICERA [see Note 24.2(i)].

Franchise tax payable pertains to the tax imposed by the Local Government Unit for the franchise grantees of electric utilities.

Pass-on VAT payable pertains to the pass-through VAT payable to supplier but pending collection from customers.

17. EQUITY

17.1 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are discussed below.

- To provide an adequate return to shareholders; and,
- To ensure the Company's ability to continue as a going concern.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the interim condensed statements of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics underlying its business. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio of the Company is presented below.

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Total liabilities	P 1,474,595,894	P 1,618,724,112
Total equity	1,950,782,533	1,801,047,066
Debt-to-equity ratio	0.76: 1.00	0.90: 1.00

17.2 Capital Stock

Capital stock consists of the following:

	Shares		Amount	
	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Common shares				
P100 par value				
Authorized – 10,000,000 shares				
Issued:				
Balance at beginning of the period	5,750,000	5,750,000	P 575,000,000	P 575,000,000
Effect of change in authorized capital stock (ACS)	-	-	-	-
Issued shares for the period	-	-	-	-
Balance at the end of the period	5,750,000	5,750,000	P 575,000,000	P 575,000,000

On November 15, 2019, the BOD approved the change in the Company's ACS from P1,000,000,000 divided into 200,000 Class A common shares with a par value of P1,000 per share and 8,000,000 Class B common shares with a par value of P100 per share to P1,000,000,000 divided into 10,000,000 common shares with a par value of P100 per share wherein each Class A common share is converted to 10 new Class B common shares. The application for amendment in the Company's articles of incorporation relating to this was subsequently filed with the SEC in February 2020 and was approved in July 2020.

On November 15, 2020, the Company applied for the registration of its 5,750,000 common shares with the SEC which was approved on June 28, 2021.

On June 28, 2021, the Company, by way of a primary offering, sold 1,750,000 of its common stock (Offer Share) at an offer price of P380.0 per Offer Share. As a result, the Company recognized additional paid-in capital amounting to P469.6 million, arising from the excess of subscription price over par value related to the issuance of the Offer Share. Transaction costs from the issuance amounting to P22.4 million was charged against the additional paid in capital relating to this issuance.

As of September 30, 2023 and December 31, 2022 the Company has forty-eight (48) stockholders owning 100 or more shares each of the Company's capital stock.

17.3 Revaluation Reserves

No changes in the components and reconciliation of items of revaluation reserves presented in the interim condensed statements of financial position at their aggregate amounts under Revaluation Reserves account as of September 30, 2023 and December 31, 2022, as shown in the succeeding page:

	Land	Retirement Benefit	Total
Balance as of January 1, 2023	<u>P 10,140,678</u>	<u>(P 12,505,853)</u>	<u>(P 2,365,175)</u>
Other comprehensive loss before tax	-	-	-
Tax income	-	-	-
Other comprehensive loss after tax	-	-	-
Balance as of September 30, 2023	<u><u>P 10,140,678</u></u>	<u><u>(P 12,505,853)</u></u>	<u><u>(P 2,365,175)</u></u>

	Land	Retirement Benefit	Total
Balance as of January 1, 2022	<u>P 10,140,678</u>	<u>(P 19,681,120)</u>	<u>(P 9,540,442)</u>
Other comprehensive loss before tax	-	9,567,023	9,567,023
Tax expense	<u>-</u>	<u>(2,391,756)</u>	<u>(2,391,756)</u>
Other comprehensive loss after tax	<u>-</u>	<u>7,175,267</u>	<u>7,175,267</u>
Balance as of December 31, 2022	<u>P 10,140,678</u>	<u>(P 12,505,853)</u>	<u>(P 2,365,175)</u>

17.4 Retained Earnings

(a) Dividend Declaration

The BOD approved the declaration of cash dividends in 2022 and as of September 30, 2023 as shown below.

<u>Date of Declaration</u>	<u>Record Date</u>	<u>Dividend per Share</u>	<u>Total</u>
<u>2022</u>			
October 22, 2022	November 15, 2022	P 9.79	<u>P 56,292,500</u>
<u>2023</u>			
September 18, 2023	September 30, 2023	P 14.08	<u>P 80,960,000</u>

(b) Appropriated Retained Earnings

On December 17, 2021, the BOD approved a new appropriation of P130,000,000 for planned acquisitions and related construction of property and equipment for 2022. This appropriation was reversed by the BOD in December 2022.

On December 16, 2022, the BOD approved a new appropriation of P350,000,000 for planned acquisitions and related construction of property and equipment for 2023.

18. REVENUES FROM SALE OF ELECTRICITY

Revenues from sale of electricity for the nine months ended September 30, 2023 and 2022 consists of:

	2023 (Unaudited)	2022 (Unaudited)
Generation	P 2,155,959,995	P 2,207,632,932
Distribution	480,035,331	470,789,744
Transmission	228,446,818	281,182,908
System loss	164,296,121	129,681,643
Supply	99,121,334	97,289,869
Metering	95,234,032	93,125,430
Others	39,543,395	36,783,645
	<u>P 3,262,637,026</u>	<u>P 3,316,486,171</u>

The Company has only one reportable segment which pertains to distribution of electricity.

Further, the Company has only one geographical segment as all of its operations are based in Tarlac City.

The Company's customers are composed mainly of Residential, Small Commercial, Secondary, Primary, 69 KV and Streetlights customers.

19. COST AND OPERATING EXPENSES BY NATURE

Presented in the succeeding page are the details of cost and operating expenses by nature for the period ended September 30.

	Notes	2023 (Unaudited)	2022 (Unaudited)
Net purchased power		P 2,469,780,741	P 2,691,316,602
Salaries and employee benefits	20.1	111,478,979	107,484,547
Depreciation and amortization	7, 8	74,976,119	78,070,934
Outside services		74,224,195	75,543,027
Taxes and licenses		32,256,514	32,780,817
Repairs and maintenance		29,908,808	29,584,278
Rent	7.2, 21.3	25,960,841	26,740,613
Utilities		18,704,956	17,695,341
Security Services		15,477,190	15,223,640
Impairment Losses		10,937,278	10,484,447
Professional fees		5,161,880	3,717,603
Office supplies		3,560,735	2,856,887
Insurance		3,326,197	3,350,628
Transportation and travel		2,572,842	3,527,263
Representation		1,642,952	1,483,365
Others		27,291,752	18,932,525
		<u>P 2,907,261,979</u>	<u>P 3,118,792,517</u>

These expenses are classified in the interim condensed statements of comprehensive income as follows:

	2023 (Unaudited)	2022 (Unaudited)
Cost of electricity sold	P 2,662,577,124	P 2,863,741,882
Other operating expenses	244,684,856	255,050,635
	<u>P 2,907,261,980</u>	<u>P 3,118,792,517</u>

Cost of electricity sold comprises of:

	Notes	2023 (Unaudited)	2022 (Unaudited)
Purchased power from:			
GMEC ¹	15	P 1,330,734,944	P 1,515,579,118
Independent Electricity Market		680,755,339	699,785,981
NGCP	15	238,796,358	310,841,618
TPC ²	15,21.1	227,487,391	179,831,158
Others		7,897,603	2,136,684
		2,485,671,635	2,708,174,559
Prompt payment discount	15	(15,890,895)	(16,857,956)
		2,469,780,740	2,691,316,603
Salaries and employee benefits	20.1	44,631,600	43,188,070
Depreciation and amortization	7	44,443,539	41,120,756
Outside services		56,502,357	41,622,257
Rent	7.2, 21.3	23,018,472	24,467,004
Repairs and maintenance		24,200,416	22,027,192
		<u>P 2,662,577,124</u>	<u>P 2,863,741,882</u>

¹ Amount is net of other discounts, except prompt payment discount

² Amount is net of prompt payment discount

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are presented below.

	Notes	2023 (Unaudited)	2022 (Unaudited)
Short-term employee benefits		P 111,478,979	P 107,484,547
Post-employment defined benefit		-	-
		<u>P 111,478,979</u>	<u>P 107,484,547</u>

The amount of salaries and employee benefits is allocated and presented in the interim condensed statements of comprehensive income under the following accounts (see Note 19).

	2023 (Unaudited)	2022 (Unaudited)
Cost of electricity sold	P 44,631,600	P 43,188,070
General and administrative expenses	66,847,379	64,296,477
	<u>P 111,478,979</u>	<u>P 107,484,547</u>

21. RELATED PARTY TRANSACTIONS

The Company's related parties include related parties under common ownership, and the Company's key management and officers and retirement benefit fund.

A summary of the Company's transactions with its related parties for the nine months ended September 30, 2023 and 2022 is presented below:

Related Party Category	Notes	Amount of Transactions		Outstanding Balance	
		2023 (Unaudited)	2022 (Unaudited)	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Related Parties Under Common Ownership:					
Purchase of electricity energy	21.1	225,254,573	177,091,328	17,245,038	18,406,708
Purchase of supplies inventories	21.2	2,708,500	9,918,477	67,393	4,475,361
Lease of transportation equipment	21.3	16,351,007	15,829,055	1,111,409	969,527
Key Management Personnel					
Compensation	21.4	16,636,634	29,393,619	-	-
Officers/Shareholders					
Rental agreement	21.6	1,237,050	1,237,050	-	-

21.1 Purchase of Electric Energy

In the normal course of business, the Company purchases power from TPC, a related party under common ownership, under a Power Purchase Agreement (PPA) for a period of 10 years from January 1, 1998, subject to review every three years. On April 11, 2011, the ERC approved the extension and amendment of the PPA. The amended PPA is for a period of 15 years commencing on April 11, 2011. The rate is considered at arm's length as the PPA is approved by the ERC. Purchases are presented as part of Cost of Electricity Sold in the interim condensed statements of comprehensive income (see Note 19). Outstanding liabilities, which are unsecured, noninterest-bearing and payable in cash within 30 days are included as part of Trade Payables account in the interim condensed statements of financial position (see Note 15).

21.2 Purchase of Supplies Inventories

The Company purchases spare parts and maintenance inventory from related parties under common ownership. Outstanding liabilities as of September 30, 2023 and December 31, 2022, which are noninterest-bearing unsecured and payable in a term of 30 days, are

included as part of Trade Payables account in the interim condensed statements of financial position (see Note 15).

21.3 Lease of Transportation Equipment

The Company has existing lease agreements with certain related parties under common ownership covering certain transportation equipment for a period of one year, subject to renewal on an annual basis.

Total rent expense from the lease agreements is presented as part of Rent under General and Administrative Expenses in the interim condensed statements of comprehensive income (see Note 19). Outstanding liabilities, which are noninterest-bearing, unsecured and payable in a term of 30 days, are included as part of Trade Payables account in the interim condensed statements of financial position (see Note 15).

21.4 Key Management Personnel Compensation

The compensation of key management personnel relating to short term employee benefits amounted to P16.6 Million and P29.4 million for the periods ended September 30, 2023 and 2022.

21.5 Continuing Suretyship Agreement

The Company's stockholders acts as a surety in favor of certain banks for its revolving credit line for the Company's working capital requirements (see Note 12). The loans remain outstanding as at September 30, 2023 and December 31, 2022.

21.6 Other Transaction with Shareholders

The Company has other transactions with its shareholders pertaining to rental of office space. The transactions pertaining to the rentals are presented as part of Rent under General and Administrative Expenses account in the interim condensed statements of comprehensive income (see Note 19). The outstanding balances as of September 30, 2023 and December 31, 2022, were unsecured, noninterest-bearing and payable every 10th of the month. These are presented as part of Accrued Expenses and Other Payables account in the interim condensed statements of financial position (see Note 16).

22. ELECTRIC POWER INDUSTRY REFORM ACT (EPIRA)

On September 8, 2001, R.A. No. 9136, also known as EPIRA Law of 2001, was approved for the purpose of restructuring the electric power industry. Discussed in the succeeding page are the significant provisions of R.A. No. 9136.

22.1 Functions and Powers of the ERC with Respect to Distribution Utilities

The following are the functions and powers of the ERC with respect to distribution utilities:

- (a) The ERC shall establish and enforce a methodology for setting transmission and distribution wheeling rates and retail rates for the captive market of distribution

utilities, taking into account all relevant considerations, including the efficiency or inefficiency of the regulated entities;

- (b) Review and approve any changes on the terms and conditions of service of any distribution utility;
- (c) Monitor and take measures in accordance with R.A. No. 9136 to penalize abuse of market power, cartelization, and anti-competitive or discriminatory behavior by any electric power industry participant;
- (d) Monitor the activities in the generation and supply of the electric power industry with the end in view of promoting free market competition and ensuring that the allocation or pass through of bulk purchase cost by distributors is transparent, non-discriminatory and that any existing subsidies shall be divided pro-rata among all retail suppliers; and,
- (e) Perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry.

22.2 De-monopolization and Shareholding Dispersal

Unless the distribution utility or the company holding the shares or its controlling stockholders are already listed in the Philippine Stock Exchange, Section 28 of R.A. No. 9136 provides that holdings of persons, natural or juridical, including directors, officers, stockholders and related interests, in a distribution utility and their respective holding companies shall not exceed 25% of the voting shares of stock.

22.3 Performance-Based Regulation (PBR)

The Company entered PBR at the third entry point, as originally described in Annex B of ERC Resolution No. 12-02 Series of 2004 “*Adopting a Methodology for Setting Distribution Wheeling Rates*,” dated December 10, 2004, and later amended by the ERC to make provision for four entry points. ERC issued the Final Determination as contained in its decision for the approval of the Company’s application for its Annual Revenue Requirement and performance Incentive Scheme for the Second Regulatory Period on June 8, 2010. The Second Regulatory Period commenced on July 1, 2010 and was terminated on June 30, 2014. In December 2021, ERC has promulgated the Rules for Setting Distribution Wheeling Rates which governs the distribution rate filing of private distribution utilities belonging to Group A for their fifth regulatory period. The Company belongs to Group C and is expected to reset for its fourth regulatory period in 2024.

23. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2023 (Unaudited)	2022 (Unaudited)
Net profit for the period	P 230,695,467	P 155,230,871
Divided by the weighted average Number of outstanding common shares	5,750,000	5,750,000
Earnings per share	P 40.12	P 27.00

There are no dilutive potential common shares at the end of each reporting period. The weighted average number of outstanding common shares was retrospectively adjusted for the stock split as a result of the increase in ACS (see Note 17.2).

24. COMMITMENTS AND CONTINGENCIES

The breakdown of the Company's provisions are as follows:

	Power Cost Over (Under) Recoveries (Note 24.1)		DWSA (Note 24.2)		Total
Balance at January 1, 2023	P	36,594,890	P	9,825,738	P 46,420,628
Provisions		43,203,148			43,203,148
Reversal of provisions		-		-	-
Balance at September 30, 2023	P	79,798,038	P	9,825,738	P 89,623,776
Balance at January 1, 2022	P	13,875,691	P	9,825,738	P 23,701,429
Provisions		36,594,890			36,594,890
Reversal of provisions	(13,875,691)		-	(13,875,691)
Balance at December 31, 2022	P	36,594,890	P	9,825,738	P 46,420,628

24.1 Over/Under Recoveries on Generation and Transmission Costs

ERC Resolution No. 16, “*A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*”, as amended by Resolution No. 21, Series of 2010, requires all Distribution Utilities to file their consolidated applications to address any over/under recoveries on generation and transmission cost, as well as with the lifeline and inter-class cross subsidies. Distribution utilities are required to file their application every three years.

As ordered by the ERC on December 5, 2019, it authorized the Company to collect the amount of P43.0 million from its customers and refund the amount of P80.5 million to its customers, relative to its consolidated applications for the period January 2011 to December 2013 and for the period January 2014 to December 2016, respectively, subject to the final evaluation of its applications by the ERC. The Company completed the collection and refund of the said under and over recoveries in July 2021. In addition, the ERC issued its Order dated January 28, 2021, authorizing the Company to implement its consolidated applications for the period January 2017 to December 2019 filed in August 2020 subject to the evaluation by the ERC. The Company filed for a Motion for Reconsideration before the ERC to defer the implementation and extend the period of refund/recovery. The Company started to implement the said order in August 2021 and has been completed in August 2022. On May 22, 2023, ERC docketed the Company's application for the confirmation of its true-up calculation of automatic pass-through costs implemented for the billing period from January 2020 to December 2022.

The Company recognized provisions for power cost over recoveries of P43,203,148 in 2023, whereas a net refund of P13,875,691 was recognized in 2022. The amount of provisions will be reversed once the Company starts refunding the customers based on the approved refund scheme of the ERC.

24.2 Legal Claims

(i) *Additional Charges of Power Sector Assets and Liabilities Management Corporation (PSALM)*

In a petition for dispute resolution against the PSALM et al. filed before the ERC, the Company sought to nullify the DWSA charges being billed by PSALM to the Company. In an order issued by ERC on September 2010, the Commission directed the parties to observe the status quo until such time the Commission has finally resolved the instant petition.

On October 1, 2019, ERC issued an order to deny the petition filed by the Company on the DWSA charges being billed by PSALM. However, the Company submitted a motion for reconsideration to ERC on December 9, 2019. As of September 30, 2022 and December 31, 2021, ERC is yet to decide on the motion for reconsideration submitted by the Company.

On another matter, the ERC issued in various cases an order authorizing the PSALM to implement the 10th to 17th Generation Rate Adjustment Mechanism (GRAM) and the 15th-16th Incremental Currency Exchange Rate Adjustment (ICERA) Deferred Accounting Adjustment. This order would allow PSALM to collect additional amounts from the Company over a period of 60 months as collections are made from end customers. Also, PSALM is collecting from the Company certain amount representing also the 10th-17th GRAM and 15th-16th ICERA-DAA payable over a period of 60 months. With this, the Company contested the assessment as this was not included in the September 2017 ERC order. Thus, the Company advised PSALM to first get an order from ERC authorizing the collection of this amount.

The outstanding payables to PSALM from the above transactions are presented as part of Non-Trade Payables under Trade and Other Payables account in the interim condensed statements of financial position.

On the other hand, the outstanding receivables from customers in relation to the DAA as discussed above, are presented as Accrued receivables under Trade and Other Receivables account in the interim condensed statements of financial position (see Note 10).

(ii) *Energy Supply Contract (ESC) between San Miguel Energy Corporation (SMEC) and the Company*

On another matter, ERC rendered a decision on ERC Case No. 2011-081 in August 2015, making the provisional authority granted to the Company and SMEC on July 18, 2011 permanent, to which SMEC filed a motion for clarification and reconsideration. In May 2018, the ERC issued an order resolving SMEC's motion for clarification and reconsideration, wherein the Company and SMEC were directed to comply with the submission of their proposed recovery scheme for the difference between the final approved rates and the provisionally implemented rates.

On June 13, 2019, the Company and SMEC filed a motion for approval on their proposed recovery scheme before the ERC. However, the ERC did not issue an approval yet on the filed recovery scheme. Nonetheless, the Company accrued the related revenue and cost from the proposed recovery scheme based on the difference between the final approved rates and provisionally implemented rates amounting to P68.1 million in 2019.

24.3 Franchise Extension

By virtue of R.A. No. 10795 granting extension of the Company's franchise for another 25 years (see Note 1), the Company is required to meet certain reportorial and operational obligations in relation to the Company's operation of its electric distribution system.

Section 15, Dispersal of Ownership, of R.A. No. 10795 provides that the grantee should offer at least thirty percent (30%) of its outstanding capital stock or a higher percentage to Filipino citizens, as well as Section 43 (t) of R.A. 9136, otherwise known as the EPIRA, which requires distribution utilities to offer and sell to the public a portion of no less than fifteen percent (15%) of its common shares (the "public offering requirement"). With the SEC's approval of the Company's Registration Statement on June 28, 2021 and the subsequent offering, the Company is now deemed to have duly complied with the public offering requirement under its franchise and the EPIRA.

24.4 Others

There are other commitments and contingencies that arise in the normal course of operations that are not reflected in the accompanying interim condensed financial statements. As of September 30, 2023 and December 31, 2022, management is of the opinion that losses, if any, arising from these commitments and contingencies will not have a material effect on the Company's interim condensed financial statements.

25. SEASONAL OR CYCLICALITY OF OPERATIONS

The energy sector's production is widely based on consumer demand. Since the Philippines is a tropical country, the Company's revenues tend to increase during the dry months of March to July. Profits of the Company tend to increase again normally during the last four months of the year, which is the holiday season due to large foot traffic in malls and other establishments and the overall increase in activity in the mentioned months.

PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussions should be read in conjunction with the Unaudited Condensed Interim Financial Statements of Tarlac Electric Inc. ("TEI" or the "Company") as of and for the period ended 30 September 2023 (with comparative figures as of 31 December 2022 and for the period ended 30 September 2022).

DISCUSSION ON CHANGES IN FINANCIAL POSITION

For the Nine (9) Month Period Ended 30 September 2023 and Period Ended 31 December 2022

As of 30 September 2023, Total Assets amounted to Three Billion Four Hundred Twenty-Five Million Three Hundred Seventy-Eight Thousand Pesos (₱3,425,378,000.00) consisting of Non-Current Assets of Two Billion Four Hundred Fifty-Nine Million Four Hundred Seventeen Thousand Pesos (₱2,459,417,000.00) and Current Assets of Nine Hundred Sixty-Five Million Nine Hundred Sixty-Two Thousand Pesos (₱965,962,000.00). As of 31 December 2022, Total Assets amounted to Three Billion Four Hundred Nineteen Million Seven Hundred Seventy-One Thousand Pesos (₱3,419,771,000.00) consisting of Non-Current Assets of Two Billion One Hundred Seventy-Two Million Five Hundred Ten Thousand Pesos (₱2,172,510,000.00) and Current Assets of One Billion Two Hundred Forty-Seven Million Two Hundred Sixty-One Thousand Pesos (₱1,247,261,000.00).

An increase of Thirteen and 21/100 percent (13.21%) was noted in the Company's Non-Current Assets. The increase is primarily due to the increase in Property Plant and Equipment of Two Hundred Fifty-Two Million Three Hundred Ninety Thousand Pesos (₱252,390,000.00), which reflects the completed and on-going construction of TEI's capital expenditure projects such as, but not limited, to the construction of the Company's Main Headquarters, the extension, upgrading, and rehabilitation of the Company's primary, secondary, and sub-transmission lines, upgrading and rehabilitation of existing substations and construction of new substations, purchase and installation of meters and distribution transformers, and purchase of various software, information technology and communication equipment.

Total Current Assets decreased by Twenty-two and 55/100 percent (22.55%). The decrease is primarily due to the decrease in Trade and Other Receivables of One Hundred Ninety-Seven Million Three Hundred Nineteen Thousand Pesos (₱197,319,000.00), in Other Current Assets of Sixteen Million Ninety-Nine Thousand Pesos (₱16,099,000.00), and in Cash and Cash Equivalents of Sixty-Seven Million Eight Hundred Eighty-One Thousand Pesos (₱67,881,000.00). The decrease in Cash and Cash Equivalents resulted from the net cash used in investing and financing activities mitigated by the net cash from operating activities.

TEI's Total Liabilities decreased by One Hundred Forty-Four Million One Hundred Twenty-Eight Thousand Pesos (₱144,128,000.00). As of 30 September 2023, Total Liabilities amounted to One Billion Four Hundred Seventy-Four Million Five Hundred Ninety-Six Thousand Pesos (₱1,474,596,000) consisting of Non-Current Liabilities of Six Hundred Sixty-Two Million Nine Hundred Fifteen Thousand Pesos (₱662,915,000.00) and Current Liabilities

of Eight Hundred Eleven Million Six Hundred Eighty-One Thousand Pesos (₱811,681,000.00). As of 31 December 2022, Total Liabilities amounted to One Billion Six Hundred Eighteen Million Seven Hundred Twenty-Four Thousand Pesos (₱1,618,724,000.00) consisting of Non-Current Liabilities of Six Hundred Six Million Forty-Six Thousand Pesos (₱606,046,000.00) and Current Liabilities of One Billion Twelve Million Six Hundred Seventy-Eight Thousand Pesos (₱1,012,678,000.00).

TEI's Total Non-Current Liabilities increased by Nine and 38/100 percent (9.38%) amounting to Fifty-Six Million Eight Hundred Sixty-Nine Thousand Pesos (₱56,869,000.00). The increase is primarily due to the reclassification of provisions for power cost over recoveries of Forty-Six Million Four Hundred Twenty-One Thousand Pesos (₱46,421,000.00) as non-current, increase in advances from customers of Fifteen Million Seven Hundred Eighty-Four Thousand Pesos (₱15,784,000.00) and lease liabilities of Three Million Eight Hundred Forty-Two Thousand Pesos (₱3,842,000.00), mitigated by the decrease in refundable deposits of Nine Million One Hundred Seventy-Seven Thousand Pesos (₱9,177,000.00).

The Company's Current Liabilities had a decrease of Two Hundred Million Nine Hundred Ninety-Seven Thousand Pesos (₱200,997,000.00). The decrease is brought by decrease in Interest-bearing Loans and Borrowings amounting to Two Hundred One Million Nine Hundred Forty-Five Thousand Pesos (₱201,945,000.00), Trade Payables of Sixty Million Five Hundred Fifteen Thousand Pesos (₱60,515,000.00), Accrued Expenses and Other Payables amounting to Three Million Fifty-Seven Thousand Pesos (₱3,057,000.00), Provisions of Three Million Two Hundred Eighteen Thousand Pesos (₱3,218,000.00) and Income Tax Payable of Eight Million One Hundred Eighty Thousand Pesos (₱8,180,000.00).

Total Equity increased by One Hundred Forty-Nine Million Seven Hundred Thirty-Six Thousand Pesos (₱149,736,000.00). The increase is primarily due to the Company's result of operations for the period ended 30 September 2023.

On 07 July 2020, the Securities and Exchange Commission approved the conversion of the Company's Two Hundred Thousand (200,000) Class A common shares with par value of One Thousand Pesos (P1,000.00) per share to Two Million (2,000,000) common shares with par value of One Hundred Pesos (P100.00) per share, thereby increasing its issued and outstanding capital stock to Four Million (4,000,000) common shares.

On 28 June 2021, the Securities and Exchange Commission (SEC) approved the Company's Registration Statement of Five Million Seven Hundred Fifty Thousand (5,750,000) common shares, out of which, One Million Seven Hundred Fifty Thousand (1,750,000) common shares will be issued and offered for sale to the general public by way of primary offering at an initial price of P380 per share pursuant to Sections 8 and 12 of the Securities Regulation Code.

On 17 December 2021, the BOD approved a new appropriation of P130,000,000 for planned acquisitions and related construction of property and equipment for 2022.

On 16 December 2022, the BOD approved the reversal of the 2021 appropriations and approved a new appropriation of P350,000,000 for planned acquisitions and related construction of property and equipment for 2023.

On 21 October 2022, the BOD authorized the declaration of cash dividends of Nine and 79/100 Pesos (₱9.79) per share or in the total amount of Eighty Million Nine Hundred Sixty Thousand Pesos (₱56,292,500.00) from the unrestricted retained earnings of the Corporation as of 31 December 2021 to all its stockholders of record as of 15 November 2022.

On 18 September 2023, the BOD authorized the declaration of cash dividends of Fourteen and 08/100 Pesos (₱14.08) per share or in the total amount of Eighty Million Nine Hundred Sixty Thousand Pesos (₱80,960,000.00) from the unrestricted retained earnings of the Corporation as of 31 December 2022 to all its stockholders of record as of 30 September 2023.

DISCUSSION ON RESULTS OF OPERATIONS

For the Period Ended 30 September 2023 and 2022

Revenues

The Company generates its revenues primarily from (1) Generation, Transmission and System Loss, which are pass-through charges; (2) Distribution Charges consisting of Distribution, Supply, and Metering Charges; and (3) other charges related to its services such as Reconnection Fees, Penalties and Surcharges on overdue accounts, Violation of Contract Charges, and Pole Rental.

Pass-through Charges are revenue-neutral to the Company. The ERC evaluates these pass-through charges every three (3) years for any over or under recoveries. Upon the ERC's approval, the over or under-recoveries are either refunded to or collected from TEI's customers.

Distribution Charges are based on the last approved rates of the Company for regulatory year 2014 under a Performance-Based Regulation basis. No changes to distribution charges can be made by the Company without the ERC's approval.

The Company distributes electricity to six (6) customer classes, namely: (1) Residential; (2) Small Commercial; (3) Secondary; (4) Primary; (5) 69KV; and (6) Streetlights.

Total Revenue for the period ended 30 September 2023 and 2022 are as follows:

Revenue	Sept 2023	%	Sept 2022	%
	(in thousands)		(in thousands)	
Generation	2,155,960.00	66.08%	2,207,632.00	66.57%
Distribution	480,035.00	14.71%	470,790.00	14.20%
Transmission	228,447.00	7.00%	281,183.00	8.48%
System loss	164,296.00	5.04%	129,682.00	3.91%
Supply	99,121.00	3.04%	97,290.00	2.93%
Metering	95,234.00	2.92%	93,125.00	2.81%
Other Income	39,544.00	1.21%	36,784.00	1.11%
TOTAL	3,262,637.00	100.00%	3,316,486.00	100.00%

The sale of electricity decreased by one and 65/100 percent (1.65%) for the nine (9) month period ended 30 September 2023, compared to the same period in 2022. The decrease is due to a lower average pass-through charge in 2023 compared to 2022, resulting from lower fuel cost and the refund of the net over recoveries in August 2023 in accordance with ERC Resolution No. 14, Series of 2022, titled “A Resolution Adopting the Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”, mitigated by the minimal increase in energy sales.

The following table summarizes the energy sales per customer class for the period ended 30 September 2023 and 2022, as well as the customer count as of 30 September 2023 and 2022:

Customer Class	Energy Sales in MWh			No. of Customers		
	2023	2022	% Inc/(Dec)	2023	2022	% Inc/(Dec)
Residential	137,220	137,674	-0.33%	87,103	84,186	3.46%
Small Commercial	37,663	33,968	10.88%	5,263	5,100	3.20%
Secondary	40,013	37,450	6.84%	259	246	5.28%
Primary	132,817	132,197	0.47%	63	58	8.62%
69 KV	15,211	17,813	-14.61%	2	2	0.00%
Streetlights	1,435	1,761	-18.51%	26	31	-16.13%
Total	364,359	360,863	0.97%	92,716	89,623	3.45%

As of 30 September 2023, the Company’s total energy sales increased by 97/100 percent (0.97%) or by Three Thousand Four Hundred Ninety-Six megawatt hours (3,496MWh) from Three Hundred Sixty Thousand Eight Hundred Sixty-Three megawatt hours (360,863 MWh) in 2022 to Three Hundred Sixty-Four Thousand Three Hundred Fifty-Nine megawatt hours (364,359 MWh) in 2023. The Company’s total number of customers increased by three and 45/100 percent (3.45%) or a total of Three Thousand Ninety-Three (3,093) customers.

Costs and Expenses

The consolidated costs and expenses for the Nine (9) month period ended 30 September 2023 amounted to Two Billion Nine Hundred Seven Million Two Hundred Sixty-Three Thousand Pesos (₱2,907,263,000.00), which is lower by Two Hundred Eleven Million Five Hundred Thirty Thousand Pesos (₱211,530,000.00) compared to the consolidated costs and expenses of Three Billion One Hundred Eighteen Million Seven Hundred Ninety-Three Thousand Pesos (₱3,118,793,000.00) in 2022. The table in the succeeding page shows the breakdown of consolidated costs and expenses.

Particulars	in Thousands		
	2023	2022	% Inc/(Dec)
Net purchased power	2,469,781.00	2,691,317.00	-8.23%
Salaries and employee benefits	111,479.00	107,485.00	3.72%
Depreciation and amortization	74,976.00	78,071.00	-3.96%
Outside services	74,224.00	75,543.00	-1.75%
Taxes and licenses	32,257.00	32,781.00	-1.60%
Repairs and maintenance	29,909.00	29,584.00	1.10%
Rent	25,961.00	26,741.00	-2.92%
Utilities	18,705.00	17,695.00	5.71%
Security Services	15,477.00	15,224.00	1.66%
Impairment losses	10,937.00	10,484.00	4.32%
Professional fees	5,162.00	3,718.00	38.84%
Office supplies	3,561.00	2,857.00	24.64%
Insurance	3,326.00	3,351.00	-0.75%
Transportation and travel	2,573.00	3,527.00	-27.05%
Representation	1,643.00	1,483.00	10.79%
Others	27,292.00	18,932.00	44.15%
TOTAL	2,907,263.00	3,118,793.00	-6.78%

The net purchased power, consisting of generation and transmission costs net of any applicable discounts, accounted for eighty-four and 95/100 percent (84.95%) and eighty-six and 29/100 percent (86.29%) of the total costs and expenses for the nine (9) months ended 30 September 2023 and 2022, respectively. The electricity distributed by the Company is purchased through its Power Purchase Supply Agreement (PPSA) duly approved by the ERC, whereas any imbalance was purchased from the WESM. The net purchased power cost in 2023 decreased by eight and 23/100 percent (8.23%) from 2022 due to lower fuel cost and WESM prices during the year.

Salaries and Employee Benefits amounting to One Hundred Eleven Million Four Hundred Seventy-Nine Thousand (₱111,479,000.00) increased by three and 72/100 percent (3.72%) compared to same period last year. The increase was primarily due to the annual increase in the monthly salary of employees.

Outside Services amounting to Seventy-Four Million Two Hundred Twenty-Four Thousand Pesos (₱74,224,000.00) decreased by one and 75/100 percent (1.75%).

Taxes and licenses which amounted to Thirty-Two Million Two Hundred Fifty-Seven Thousand Pesos (₱32,257,000.00) is lower by one and 60/100 percent (1.60%) amounting to Five Hundred Twenty-Four Thousand Pesos (₱524,000.00) compared to the previous year primarily due to lower revenue for the period which is the basis of local franchise tax accrued for the nine (9) months period ended 30 September 2023.

Utility expenses consisting of electricity, water and communication amounting to Eighteen Million Seven Hundred Five Thousand Pesos (₱18,705,000.00) is higher by One Million Ten Thousand Pesos (₱1,010,000.00). The increase was primarily due to higher communication expense incurred during the period.

Professional Fees amounting to Five Million One Hundred Sixty-Two Thousand Pesos (₱5,162,000.00) is higher by One Million Four Hundred Forty-Four Thousand Pesos (₱1,444,000.00). The increase was primarily due to additional professional fees incurred by the Company for its regulatory and tax compliances, and other professional services.

Other expenses consisting of depreciation, security services, impairment losses, office supplies, insurance, transportation and travel, representation expenses and other necessary operating expenses accounted for four and 81/100 percent (4.81%) of the total costs and expenses for the nine (9) month period ended 30 September 2023. Said expenses had increased by four and 37/100 percent (4.37%) compared to the same period last year.

The Company's Cost of Electricity Sold which amounted to Two Billion Six Hundred Sixty-Two Million Five Hundred Seventy-Seven Thousand Pesos (₱2,662,577,000.00) for the nine (9) month period ended 30 September 2023 is seven and 2/100 (7.02%) lower compared to the Two Billion Eight Hundred Sixty-Three Million Seven Hundred Forty-Two Thousand Pesos (₱2,863,742,000.00) of the same period in 2022. The details of costs and expenses are summarized in the following table:

Particulars	<i>in Thousands</i>	
	2023	2022
Purchased Power	2,469,781.00	2,691,317.00
Outsourced Services	56,502.00	41,622.00
Salaries and Employee Benefits	44,632.00	43,188.00
Depreciation	44,444.00	41,121.00
Repairs and Maintenance	24,200.00	22,027.00
Rental Expense	23,018.00	24,467.00
Total	2,662,577.00	2,863,742.00

KEY PERFORMANCE INDICATORS

The relevant key performance indicators of the Company are shown in the following table:

	30 September 2023	31 December 2022
Return on Equity		
<i>Net Profit divided by Total Equity</i>	0.12	0.16
Return on Assets		
<i>Net Profit divided by Average Assets</i>	0.07	0.08
Debt to Equity Ratio		
<i>Total Liabilities divided by Total Equity</i>	0.76	0.90
Current Ratio		
<i>Total Current Assets divided by Total Current Liabilities</i>	1.19	1.23
Average Collection Period		
<i>Average Current Trade and Other Receivables divided by Average Sales (Annualized) per day (Sale of Electricity divided by no. of days (365 days if one whole year))</i>	52 days	53 days

LIQUIDITY RISKS

The Company considers the following items to pose a risk on its ability to meet its obligations as they fall due: close of business due to pandemic, labor strike, typhoon or any force majeure event, and non-payment or delays in payment by its customers.

The Company manages its liquidity risks by carefully monitoring scheduled debt servicing payments as well as cash outflows due in a day-to-day business. Liquidity needs are monitored periodically, on a day-to-day, week-to-week basis, as well as on the basis of a rolling 30-day projection.

As of 30 September 2023, the Company's financial liabilities have contractual maturities as shown below:

	Current		Non-current	
	Within 6 Months	6-12 Months	1 to 5 years	Later than 5 years
Trade Payables	P 310,377,258.00	-	-	-
Accrued Expenses and other Payables	269,982,197.00	-	45,076,151.00	
Interest- bearing loans and borrowings	1,505,335.00	196,599.00	-	
Advances from Customers	83,731,137.00		160,676,544.00	
Dividends Payable	75,546,240.00			
Refundable Deposits				406,733,585.00
	P 741,142,167.00	196,599.00	205,752,695.00	406,733,585.00

The Company does not foresee that it will have any cashflow or liquidity problems within the next twelve (12) months from the date of this report.

The Company is not aware of any event that will trigger direct or contingent financial obligations that are material to the Company, including default or acceleration of any obligations.

The Company does not have any off-balance sheet transactions, arrangements, obligations, including contingent obligations, and other relationships with unconsolidated entities or other persons created during the relevant period.

The Company is not aware of any trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenues, income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

The Company does not have any material commitments for capital expenditures other than those described under the *Annex "D"* of this report.

COMMITMENTS AND CONTINGENCIES

The breakdown of the Company's provisions are as follows:

	Power Cost Over (Under) Recoveries (Note 24.1)		DWSA (Note 24.2)		Total	
Balance at January 1, 2023	P	36,594,890	P	9,825,738	P	46,420,628
Provisions		43,203,148				43,203,148
Reversal of provisions		-		-		-
Balance at September 30, 2023	P	79,798,038	P	9,825,738	P	89,623,776
Balance at January 1, 2022	P	13,875,691	P	9,825,738	P	23,701,429
Provisions		36,594,890				36,594,890
Reversal of provisions	(13,875,691)		-	(13,875,691)
Balance at December 31, 2022	P	36,594,890	P	9,825,738	P	46,420,628

TARLAC ELECTRIC INC.
LIST OF SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2023
(UNAUDITED)

Schedule	Content	Page No.
<i>Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68</i>		
A	Financial Assets Financial Assets at Fair Value Through Profit or Loss Financial Assets at Fair Value Through Other Comprehensive Income Financial Assets at Amortized Cost	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	2
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	*
D	Long-term Debt	3
E	Indebtedness to Related Parties	4
F	Guarantees of Securities of Other Issuers	**
G	Capital Stock	5
<i>Other Required Information</i>		
	Reconciliation of Retained Earnings Available for Dividend Declaration	6
	Map Showing the Relationship Between the Company and its Related Parties	***
	Supplemental Schedule of Financial Soundness Indicators	7
	Aging of Accounts Receivable	8
*	<i>The Company does not prepare any consolidated financial statements</i>	
**	<i>The Company does not have guarantees of securities of other issuers</i>	
***	<i>The Company does not belong to a group of companies</i>	

TARLAC ELECTRIC INC.
Schedule A

Financial Assets - Fair Value Through Profit or Loss, Fair Value Through Other Comprehensive Income and Amortized Cost
SEPTEMBER 30, 2023
(UNAUDITED)

Name of Issuing Entity and Accosiation of Each Issue	Number of Shares or Principal Amount of Bonds or Notes	Amount Shown in the Statement of Financial Position as of Reporting Period	Value Based on Market Quotation at End of Reporting Period	Income Received and Accrues
------------------------------------------------------	--------------------------------------------------------	----------------------------------------------------------------------------	------------------------------------------------------------	-----------------------------

Fair Value Through Profit or Loss (FVTPL)

	N/A	N/A	N/A	N/A
--	-----	-----	-----	-----

Fair Value Through Other Comprehensive Income (FVTOCI)

	N/A	N/A	N/A	N/A
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Financial Assets at Amortized Cost

Cash and cash equivalent		249,746,528.00	249,746,528.00	264,297.00
Trade and other receivables - net		519,712,718.00	519,712,718.00	
Refundable deposits		3,536,654.00	3,536,654.00	
Others		2,048,706.00	2,048,706.00	
Total		775,044,606.00	775,044,606.00	264,297.00

TARLAC ELECTRIC INC.

Schedule B

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

SEPTEMBER 30, 2023

(UNAUDITED)

Name	Balances at Beginning of the Period	Additions	Deductions		Ending Balance		Balance at End of Period
			Amounts Collected	Written Off	Current	Non-Current	
Receivable from Employees	1,114,483.00	1,793,931.00	2,627,328.00				281,086.00

Note:

The total amount is included as part of Other prepayments under the Other Current Assets account in the interim condensed statement of financial position

TARLAC ELECTRIC INC.

Schedule D

Long-term Debt

SEPTEMBER 30, 2023

(UNAUDITED)

Name of Bank	Amount Shown Under Caption "Current Portion of Interest-bearing Loans and Borrowings " in Related Statement of Financial Position	Amount Shown Under Caption "Non-current Portion of Interest-bearing Loans and Borrowings " in Related Statement of Financial Position
Banco de Oro Loans Payable	-	-
China Banking Corporation Loans Payable	-	-
Development Bank of the Philippines Loans Payable	-	
Maybank Philippines, Incorporated Loans Payable	-	
Metropolitan Bank and Trust Company Loans Payable	-	-
Mortgage Payable	1,701,934	-
Total	1,701,934	-

TARLAC ELECTRIC INC.
Schedule E
Indebtedness to Related Parties
SEPTEMBER 30, 2023
(UNAUDITED)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Tarlac Power Corporation*	15,238,936	17,245,038
Meka Corporation*	5,050,058	67,393
ETM Incorporated*	394,830	1,111,409

Supplementary information on Indebtedness to Related Parties

* The total amount is presented as part of Trade Payables in the interim condensed statement of financial position

TARLAC ELECTRIC INC.
Schedule G
Capital Stock
SEPTEMBER 30, 2023
(UNAUDITED)

Title of Issue	Number of Shares Authorized	Outstanding as Shown Under the Related Interim Condensed Statement of	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held By		
				Related Parties	Directors, Officers and Employees	Others
Common Shares - P100 par value	10,000,000	5,750,000	-	3,337,800	774,950	1,637,250.00

TARLAC ELECTRIC INC.
Reconciliation of Retained Earnings Available for Dividend Declaration
SEPTEMBER 30, 2023
(UNAUDITED)

Unappropriated Retained Earnings of the Company at Beginning of Year	408,751,536.00
Prior Periods' Outstanding Reconciling Item	
Deferred tax income	<u>8,913,011.00</u>
Unappropriated Retained Earnings Available for	
Dividend Declaration at Beginning of Year, as Adjusted	417,664,547.00
Net Profit of the Company Realized During the Nine (9) Month Period ended September 30, 2023	
Net Profit per interim condensed financial statements	230,695,467.00
Non-actual/unrealized income	
Deferred tax income from deferred tax assets recognized in the profit or loss during the year	(2,710,288.00)
Other Transaction During the Period	
Cash dividend declaration	(80,960,000.00)
Reversal of appropriated retained earnings	-
Appropriation of retained earnings	<u>-</u>
Unappropriated Retained Earnings Available for	
Dividend Declaration as at September 30, 2023	<u><u>564,689,726.00</u></u>

TARLAC ELECTRIC INC.
Supplemental Schedule of Financial Soundness Indicators
SEPTEMBER 30, 2023 AND DECEMBER 31, 2022
(UNAUDITED)

Ratio	Formula		2023	Formula		2022
Current Ratio	Total Current Assets divided by Total Current Liabilities		1.19	Total Current Assets divided by Total Current Liabilities		1.23
	Total Current Assets	965,961,809		Total Current Assets	1,247,261,109	
	Divided by: Total Current Liabilities	811,680,906		Divided by: Total Current Liabilities	1,012,677,953	
	Current Ratio	1.19		Current Ratio	1.23	
Acid Test Ratio	Quick assets (Total Current Assets less Other Current Assets) divided by Total Current Liabilities		0.95	Quick assets (Total Current Assets less Other Current Assets) divided by Total Current Liabilities		1.02
	Total Current Assets	965,961,809		Total Current Assets	1,247,261,109	
	Less: Other Current Assets	196,502,563		Less: Other Current Assets	212,601,759	
	Quick Assets	769,459,246		Quick Assets	1,034,659,350	
	Divided by: Total Current Liabilities	811,680,906		Divided by: Total Current Liabilities	1,012,677,953	
	Acid Test Ratio	0.95		Acid Test Ratio	1.02	
Solvency Ratio	Total Assets divided by Total Liabilities		2.32	Total Assets divided by Total Liabilities		2.11
	Total Assets	3,425,378,427		Total Assets	3,419,771,178	
	Divided by: Total Liabilities	1,474,595,894		Divided by: Total Liabilities	1,618,724,112	
	Solvency Ratio	2.32		Solvency Ratio	2.11	
Debt-to-Equity Ratio	Total Liabilities divided by Total Equity		0.76	Total Liabilities divided by Total Equity		0.90
	Total Liabilities	1,474,595,894		Total Liabilities	1,618,724,112	
	Divided by: Total Equity	1,950,782,533		Divided by: Total Equity	1,801,047,066	
	Debt-to-Equity Ratio	0.76		Debt-to-Equity Ratio	0.90	
Assets-to-Equity Ratio	Total Assets divided by Total Equity		1.76	Total Assets divided by Total Equity		1.90
	Total Assets	3,425,378,427		Total Assets	3,419,771,178	
	Divided by: Total Equity	1,950,782,533		Divided by: Total Equity	1,801,047,066	
	Assets-to-Equity Ratio	1.76		Assets-to-Equity Ratio	1.90	
Interest Rate Coverage Ratio	Earnings before interest and taxes (EBIT) divided by Interest expense		52.14	Earnings before interest and taxes (EBIT) divided by Interest expense		43.78
	EBIT	313,914,803		EBIT	367,038,425	
	Divided by: Interest Expense	6,021,149		Divided by: Interest Expense	8,384,145	
	Interest Rate Coverage Ratio	52.14		Interest Rate Coverage Ratio	43.78	
Return on Equity	Net Profit divided by Total Equity		0.12	Net Profit divided by Total Equity		0.16
	Net Profit	230,695,467		Net Profit	269,900,915	
	Divided by: Average Total Equity	1,875,914,800		Divided by: Average Total Equity	1,690,655,225	
	Return on Equity	0.12		Return on Equity	0.16	
Return on Assets	Net Profit divided by Total Assets		0.07	Net Profit divided by Total Assets		0.08
	Net Profit	230,695,467		Net Profit	269,900,915	
	Divided by: Total Assets	3,425,378,427		Divided by: Total Assets	3,419,771,178	
	Return on Assets	0.07		Return on Assets	0.08	
Net Profit Margin	Net Profit divided by Total Revenue		0.07	Net Profit divided by Total Revenue		0.06
	Net Profit	230,695,467		Net Profit	269,900,915	
	Divided by: Total Revenue	3,262,637,026		Divided by: Total Revenue	4,661,899,878	
	Net Profit Margin	0.07		Net Profit Margin	0.06	

TARLAC ELECTRIC INC.
Aging of Accounts Receivable
SEPTEMBER 30, 2023
(UNAUDITED)

No. of Days Outstanding	Balance as of September 30, 2023
0-90 days	461,156,319.00
91-180 days	16,154,031.00
181-360 days	15,839,515.00
Over 360 days	66,286,815.00
Total	559,436,680.00

Note:

Amount does not include Non-Current Trade Receivables and Allowance on Impairment Loss

- Please be informed that the submission of the abovementioned eleven

Likewise, the following reports shall be filed through the Electronic Filing and Submission Tool (eFAST) at <https://checkpoint.url-protection.com/v1/url?o=https%3A//efast.sec.gov.ph/user/login&g=MTY0MDFiNGIxYjVjMDMyMQ==&h=ODYyNjM5ZjlyYzE2NmU4YWNjNWNkZWlyNjg0MjVmYTQ1NDAYNWQ3NTIxMTMwMmMyMTAyZjAzY2ZmZTA2NzY1NQ==&p=Y3AxOnRhcmxhY2VsZWNOcmljaW5jOmM6bzo1NmYwZTcxNmFiMjM1NjQxM2YxNWlwZTdkY2I4NWUzMDp2MTpwOIQ=> :

1. AFS 7. IHFS 13. SSF
2. GIS 8. LCFS 14. AFS with Affidavit of No Operation
3. BDFS 9. LCIF 15. AFS with NSPO Form 1,2, and 3
4. FCFS 10. OPC_AO 16. AFS with NSPO Form 1,2,3 and 4,5,6
5. FCIF 11. PHFS 17. FS - Parent
6. GFFS 12. SFFS 18. FS – Consolidated

For the submission and processing of compliance in the filing of Memorandum Circular No. 28 Series of 2020, please visit this link – <https://checkpoint.url-protection.com/v1/url?o=https%3A//apps010.sec.gov.ph/&g=OGJlYzkzZGY0OWYxNmFjOA==&h=ODI2YWVjZjNiOTZjMTM0ZGI3MzYxNmY1ZjBmMDNINjJjNDIxMDJkZmQzODljZGRkNzc4YmJiYTdjYTZiM2MwMw==&p=Y3AxOnRhcmxhY2VsZWNOcmljaW5jOmM6bzo1NmYwZTcxNmFiMjM1NjQxM2YxNWlwZTdkY2I4NWUzMDp2MTpwOIQ=>

For your information and guidance.

Thank you.

- Please be informed that the submission of the abovementioned eleven

Likewise, the following reports shall be filed through the Electronic Filing and Submission Tool (eFAST) at

[https://checkpoint.url-](https://checkpoint.url-protection.com/v1/url?o=https%3A//efast.sec.gov.ph/user/login&g=NWYxMTVmZGJkOGQ5YWI3YWw=&h=NjhmMzI2ZDI)

[protection.com/v1/url?o=https%3A//efast.sec.gov.ph/user/login&g=NWYxMTVmZGJkOGQ5YWI3YWw=&h=NjhmMzI2ZDI](https://checkpoint.url-protection.com/v1/url?o=https%3A//efast.sec.gov.ph/user/login&g=NWYxMTVmZGJkOGQ5YWI3YWw=&h=NjhmMzI2ZDI)
[mZTc2MTQyMDM2YWMzYjg3MDA5NDE1NzZkZmRkZmRhMjA1MDM0MDhkZmM0ZjBhODFmYzlkNTQ5MQ==&p=Y3AxOnRhcmxhY2VsZWN0cmIjaW5jOmM6bzo3ODNjNWJkOTc3YzAwMTNjMzFmNTlkNGEwYjA2OWIxZDp2MTpwOIQ=](https://checkpoint.url-protection.com/v1/url?o=https%3A//efast.sec.gov.ph/user/login&g=NWYxMTVmZGJkOGQ5YWI3YWw=&h=NjhmMzI2ZDI) :

1. AFS 7. IHFS 13. SSF
2. GIS 8. LCFS 14. AFS with Affidavit of No Operation
3. BDFS 9. LCIF 15. AFS with NSPO Form 1,2, and 3
4. FCFS 10. OPC_AO 16. AFS with NSPO Form 1,2,3 and 4,5,6
5. FCIF 11. PHFS 17. FS - Parent
6. GFFS 12. SFFS 18. FS – Consolidated

For the submission and processing of compliance in the filing of Memorandum Circular No. 28 Series of 2020, please visit

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For your information and guidance.

Thank you.

TARLAC ELECTRIC INC.
Planned CAPEX Program Details

Type	Category	Name	Description	Project Benefit	Impact if not Implemented	Target Completion Date	Project Cost, PhP	Quantity (ckm, MVA, MVar, MW)
Safety	Other Network Assets	Distribution Transformer (DT) Replacement and Proper Disposal for DENR Safety Compliance Batch 1 and Batch 2	Proper disposal and replacement of 15-250 kVA Polychlorinated Biphenyls (PCB) Distribution Transformers per DENR Administrative Order No. 01, Series of 2014.	The replacement of various sizes of distribution transformers is to comply with DENR safety requirement on the use of oil in the distribution system (all facilities that are using oil must be PCB-free).	The PCB contaminated distribution transformers will not be disposed properly and will not provide safety in the community which could be a non-compliance to DENR's requirement.	December 2024	104,573,590	
Safety	Other Network Assets	Construction of new LIP Substation Switchgear and Control House to Replace the Old Structure	This project includes the replacement of the old switchgear panel model at LIP Substation, replacement and relocation of control house, and re-routing of feeder power cables.	<p>This project will address building safety concerns, particularly on the building foundation which was found to be weak. LIP substation building structure is now about 22 years old.</p> <p>This will give way to converting LIP Substation to main switch-bay substation type for a more flexible and reliable system. Also, since LIP SS is a switching substation, restructuring is found more favorable.</p> <p>This will also include the replacement of existing switchgear which is necessary to retire outdated equipment.</p>	The safety of TEI personnel on duty along with all of the company's equipment and materials present on-site will be at risk due to the weak integrity of the S/S foundation. The upgrading of its existing switchgear will also be affected, and the S/S will have to continue relying on its outdated equipment as a result.	June 2023	73,655,002	
Capacity	Substation: Additional	Proposed San Vicente SS with 25/33 MVA Transformer at Brgy. San Vicente	The general scope of work of this project is construction of New San Vicente Substation with 25/33 MVA, 69/13.8 kV, OA/FA Transformer and accessories, with building structures. This project also includes around 1.5 km of 69 kV sub-transmission line extension using 795MCM ACSR conductor.	<p>The proposed San Vicente Substation with 25/33 MVA transformer will address the following crucial concerns in the Poblacion and Northern area of Tarlac City:</p> <p>(1) It will relieve the critically loaded Panganiban Substation, which currently serves Poblacion and Northern areas. At present, Panganiban Substation is loaded by 81.52%.</p> <p>(2) It will satisfy N-1 reliability in the area. The existing set-up will breach the 70% limit on adjacent transformer capacity criteria by 2017.</p>	The Pangabiban S/S will be subjected to higher loads in the future in which the S/S might not be able to cater for all of its demand. TEI will not satisfy the N-1 reliability criteria in the area as the 70% limit on adjacent transformer capacity criteria will be breached.	October 2023	204,000,000	33
Reliability	Resiliency: System Reliability / Flexibility	Installation of 69kV Disconnect Switches and Fault Indicators	Installation of Disconnect Switches and Fault Indicators in specified locations in the 69kV system	To improve reliability in the 69kV sub transmission system	The improvement of the reliability of the 69kV sub transmission system will be negatively affected.	December 2023	4,192,825	
Safety	Distribution Facilities: Replacement and Rehabilitation	Relocation of Poles and Upgrading of Primary Lines Due to DPWH Road Widening Project	This project includes the installation of additional poles, relocation of poles, reconfiguration of poles, and upgrading of lines from Brgy. Tibag to Brgy. Care Tarlac City due to DPWH road widening project.	The primary line poles caused obstruction at the road which was a threat in the safety of road users. It was also necessary to upgrade the lines to serve the growth in the area and to reduce the system loss.	Poles that are not relocated will be considered as road hazards and a big threat to the safety of road users. While not upgrading the primary lines will result to customer dissatisfaction as the demand continues to grow, and system losses will grow larger as well.	November 2024	6,644,918	3

Non-network Projects	Non-network Assets	Proposed Two-Storey TEI Headquarters along Mabini St., Tarlac City	Construction of Two-Storey TEI Headquarters along Mabini St., Tarlac City.	TEI's thrust to continuously improve its service to customers, as well as to improve the working condition of its employees, TEI finds it necessary to proceed with the construction of the new main office building in 2017.	The efficiency of customer service will not improve.	June 2023	201,166,268	
Capacity	Substation: Uprating	Upgrading of Maliwalo Substation	Additional 25/33 MVA, 69/13.8 kV, OA/FA power transformer and accessories including extension of 7.5 km underbuilt primary lines, and rehabilitation of old Maliwalo substation switchgear and control house.	The 10-MVA power transformer at Maliwalo Substation is expected to be overloaded due to the increasing number of commercial and agricultural businesses in the Maliwalo and Matatalaib area. TEI finds it necessary to have an additional transformer with a capacity 25/33MVA to meet the capacity requirement for its 10-year planning horizon.	The 10-MVA Transformer at Maliwalo Substation will be overloaded.	December 2024	233,000,000	33
Non-network Projects	Non-network Assets	Upgrade to Full SCADA Implementation for San Rafael, LIP, San Vicente, Panganiban, Maliwalo and TPC	Automation of all TEI's substations into One (1) complete SCADA system and separate it from TEI's Corporate Data Network	The project will have a central control center to monitor all substations. Power restoration will be fast as data will be accessible to the engineers for analysis in	Power restoration will be slower and data will not be accessible to engineers for the analysis in real time.	December 2023	79,046,578	
Non-network Projects	Non-network Assets	Acquisition of Additional TEI Cyber Security and Threat Protection Project	The existing network system of the Company is being utilized primarily for its corporate network, whereas, the additional server and storage system will be used for the Company's operations network system. The project also aims to separate the Company's corporate and operations network systems to enhance security. The additional servers and storage facility will house the data from our SCADA project together with the control system.	The project is necessary to protect and secure TEI's Infrastructure from threats coming from virus, malware, phishing, hackers and any cyber security exploits from outside and within its network. Any breach or data loss will be detrimental to the company.	TEI infrastructure will be vulnerable from threats coming from virus, malware, phishing, hackers and cyber security exploits from outside and within its network.	January 2024	19,584,056	
Reliability	Resiliency: System Reliability / Flexibility	Installation of Additional Fault Detection Devices and Automated Feeder Switches	Installation of fault indicators and automated feeder switches such as reclosers, motorized disconnect switches, and disconnect switches in practical locations of the 13.8 kV primary line distribution system	To increase the reliability of the system through automated switching and fault detection to restore service, thereby reducing the number of customers affected by prolonged outages. It is also important in preparation for Company's thrust to shift from conventional to SMART grid system.	There will be no reliability improvement or reduction of number of customers affected by prolonged outages.	December 2024	23,299,802	
Safety	Resiliency: System Reliability / Flexibility	Installation of Lightning Protection of Distribution Lines at Panganiban Feeder 2 (PANGSCRUZ)	Installation of 6.67 km of Overhead Ground Wire (shield wire) and Line Lightning Protection Devices (Smart Arrester i20z) in the overhead power distribution lines of Panganiban Substation Feeder 2 (PANGSCRUZ)	To prevent any possible danger, damages and/or outages due to the frequent occurrence of lightning in the area	The probability of danger, damages, and outages due to lightning will not be lessen.	June 2024	7,025,509	
Power Quality	Other Network Assets	Installation of Harmonic Filter at San Rafael Office	To prevent any possible danger, damages and/or outages due to the frequent occurrence of lightning in the area	To mitigate the safety concerns and power quality parameters that are exceeding the limits. This project will provide safety for the personnel working at San Rafael Office and this will solve the problems which causes unwanted tripping and shorter life for equipment. Also, this project will help in compliance with the Philippine Distribution Code and will also encourage the industrial customers to comply with the power quality standards for their own safety.	The power quality problems in San Rafael office will not be mitigated. This will also cause a violation in the Philippine Distribution Code.	July 2025	508,929	

Non-network Projects	Non-network Assets	Purchase and Installation of Computer Equipment for Load Dispatch	Purchase and installation of computer equipment and display/projection facilities at the proposed Control Center.	TEI's Control Center will house all Network operations monitoring systems including SCADA, Radio and IP Communications, Service Crew Monitoring System and future Network Infrastructure system such as AMI and the likes.	There will be equipment, display, and projection facilities at the proposed Control Center.	December 2023	3,904,911	
Non-network Projects	Non-network Assets	Construction of San Rafael Warehouse	Construction of San Rafael Warehouse Extension, Pavers, Fence and Slabs	To properly secure to prevent any loss or theft of materials; properly store and manage inventories to prevent faster deterioration or damage due to changing	There will be no proper security to prevent loss or theft of materials.	December 2023	17,190,883	
Safety	Other Network Assets	Installation of Lightning Protection of Distribution Lines at SANRAFARMENIA and LIPCAT Feeders	Installation of Overhead Ground Wire (shield wire) and Line Lightning Protection Devices (Smart Arrester i20z) in the overhead power distribution lines of SANRAFARMENIA and LIPCAT Feeders	To prevent any possible danger, damages and/or outages due to the frequent occurrence of lightning in the area	The probability of danger, damages, and outages due to lightning will not be lessen.	June 2025	9,000,000	
Capacity	Substation: Additional	Construction of Ayala I Substation at Brgy. Central	Construction of new substation switchgear and control house, including the installation of 25/33 MVA, 69/13.8 kV, ONAN/ONAF power transformer and accessories.	TEI finds it necessary to have an additional substation including a transformer with a capacity of 25/33MVA to meet the capacity requirement for its 10-year planning	There will be no enough capacity for the customer power requirement	December 2024	350,000,000	33
Capacity	Subtransmission Facilities: Acquisition and Expansion	Extension of Subtransmission Line for Ayala Substation	Extension of subtransmission line to going to Ayala substation at Brgy. Central	TEI finds it necessary to extend the subtransmission line to meet the capacity requirement for its 10-year planning	There will be not enough capacity of the power requirement	December 2024	23,000,000	3
Non-network Projects	Other Network Assets	Installation of Dehydrating Breathers for Transformer Main Tanks	Installation of dehydrating breathers on six (6) transformer main tanks and on-load tap changers	To maximize the operating times and reliability by preventing air moisture from contaminating the oil in the power	The operating time and reliability of the power transformer will no be maximized	December 2024	23,000,000	
Non-network Projects	Smart Grid	Upgrading to Advanced Distribution Management System (ADMS)	Installation, testing and commissioning of advanced distribution management system and substation automation system in all TEI substations.	Upgrading of TEI's substation network infrastructure from just data acquisition to control and management to advanced distribution management system will help the control room and substation operating personnel to monitor and control the substation. This will provide automated outage restoration and optimization of distribution system performance. Also, the project is in line with the Department of Energy's roadmap to a Smart Distribution Utility.	There will be no improvement in outage restoration and optimization of distribution system performance	February 2024	34,979,934	
Non-network Projects	Non-network Assets	Acquisition of Service Vehicles	Replacement of six (6) units Old service vehicle with three (3) units of 4x2 pick-up trucks and three (3) 4x2 pick-up trucks with double cab steel canopy, and Purchasing of two (2) units 4x2 pick-up trucks and one (1) unit of 4x2 FX truck with rear crane	As number of customers increases, additional new service vehicles will improve service efficiency of the operations and ensure safety of company employees.	The efficiency of service of the operation will not improve.	February 2023	8,725,714	
Non-network Projects	Smart Grid	Additional Cyber Security for TEI's Operations Technology Network	Installation, testing and commissioning of additional Cyber Security for TEI's Operations Technology Network	The upgrade of TEI's Network Infrastructure continues to improve as it complies with Department of Energy's roadmap to a Smart Distribution Utility.	There will be no enough defense on the improved threats such as cyber-attacks which will cause disruption to operation and services provided by TEI	January 2024	3,681,614	
Non-network Projects	Non-network Assets	Acquisition of Service Vehicles	Purchasing of new vehicles which includes three (3) units of brand new manlift, two (2) units of multi-utility vehicle, and one (1) line truck	As number of customers increases, additional new service vehicles and trucks will improve service efficiency of the	The efficiency of service of the operation will not improve.	February 2023	37,173,000	
Non-network Projects	Smart Grid	Fiber Optic Loop	Installation of Fiber Optic Loop from NGCP Concepcion to LIP Substation and from LIP Substation to Maliwalo Substation	This will increase reliability in the TEI communication system. This communication system will be exclusive for TEI use, assuring security of data.	Security of data and reliability of communication system will be compromised	December 2024	4,719,000	

Non-network Projects	Non-network Assets	UCS Server Replacement	Installation, testing and commissioning of UCS Server Refresh as a replacement of the Old Network Servers.	TEI finds it necessary since existing server in San Rafael and Lazatin office already reach the end of its useful life. Also, it supports the upgrade of the network infrastructure which is line with Department of Energy's Smart Distribution Utility Roadmap (SDUR).	There will be no enough network servers to support the reliability of TEI's data storage.	December 2023	52,264,373	
Non-network Projects	Non-network Assets	Installation of additional 10 units of Uninterruptible Power Supply (UPS)	Installation of additional UPS in San Rafael and Lazatin Office to support the IT Servers and Equipment.	The upgrade of TEI's Network Infrastructure continues to improve as it complies with Department of Energy's roadmap to a Smart Distribution Utility.	The reliability of the Network Servers will be greatly affected that could result to a poor performance, slower uptime and can't maximize the potential of server virtualization. TEI's compliance with Smart Distribution Utility Roadmap by implementing Advance Distribution Management System is also affected, since it will require a reliable data storage for efficient operation.	October 2023	7,098,214	
Efficiency	Other Network Assets	Acquisition of Metering Testing Equipment	Acquisition of one (1) unit TESCO Meter Test board 2990 and one (1) unit MTE (PPI) PWS 2.3 Gen X for Single Phase Meter, Polyphase Meter, Potential Transformer and Current Transformer Accuracy Testing.	Acquisition of the proposed metering testing equipment will help in resolving customer complaints on meter accuracy and provide onsite testing to reduce expenses and replacement of meter.	The pace of resolving customer complaints will be affected. Also, there will be no replacement on the metering testing equipment which will be	April 2023	5,000,000	
Capacity	Subtransmission Facilities: Replacement and Rehabilitation	Upgrading of TEI Line 1	Rehabilitation of 69kV Subtransmission Line 1 from 336 MCM to 795 MCM	The upgrade of TEI's 69kV subtransmission line is necessary to serve customer requirement and it will satisfy N-1 reliability in the area.	TEI will not satisfy the N-1 line reliability in subtransmission level.	December 2024	23,000,000	5
Capacity	Subtransmission Facilities: Acquisition and Expansion	Upgrading of TEI Line 3	Upgrading of 69kV Subtransmission Line from LIP Substation to Maliwalo Substation	TEI load is growing faster than expected which demands a strong need to upgrade line to bundled conductor to satisfy the N-1 line reliability and serve customer demand.	TEI will not serve customer demand and will not satisfy N-1 line reliability in subtransmission level	December 2028	51,000,000	17
Capacity	Subtransmission Facilities: Acquisition and Expansion	Upgrading of TEI Line 2	Upgrading of 69kV Subtransmission Line from NGCP Concepcion Substation to Panganiban Substation	TEI load is growing faster than expected which demands a strong need to upgrade line to bundled conductor to satisfy the N-1 line reliability and serve customer demand.	TEI will not serve customer demand and will not satisfy N-1 line reliability in subtransmission level	December 2030	45,000,000	14
Capacity	Substation: Additional	Construction of Substation at Brgy. San Manuel	Construction 25/33 MVA San Manuel Substation and Extension of Subtransmission line	TEI finds it necessary to have an additional substation including a transformer with a capacity of 25/33MVA to meet the capacity requirement for its 10-year planning	There will be not enough capacity of the power requirement	December 2032	287,000,000	33
Capacity	Substation: Uprating	Upgrading of San Rafael Substation	Upgrading of power transformer in San Rafael Substation to 25/33 MVA	TEI finds it necessary to upgrade San Rafael Substation power transformer with a capacity of 25/33MVA to meet the capacity requirement for its 10-year planning	There will be not enough capacity of the power requirement	December 2031	42,000,000	33
Capacity	Substation: Additional	Construction of Ayala II Substation at Brgy. Central	Construction of new substation switchgear and control house, including the installation of 25/33 MVA, 69/13.8 kV, ONAN/ONAF power transformer and accessories.	TEI finds it necessary to have an additional substation including a transformer with a capacity of 25/33MVA to meet the capacity requirement for its 10-year planning	There will be no enough capacity for the customer power requirement	December 2027	291,000,000	33